



“The legal aid system is fundamental to social and legal justice. Our work protects people’s rights, ensures they get a fair trial and helps enable them to play a fuller role in society.”

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Legal Services Commission Annual Report 2004/05

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

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Preface

In 2004/05, the Legal Services Commission (LSC) continued to invest over £2 billion in maintaining and developing the Community Legal Service (CLS) and the Criminal Defence Service (CDS), helping two million people access legal services, help and advice.

Even though it has been a challenging year for the LSC both internally, with organisational restructuring, and in its external relationships, we continued to work on the complexities of securing the delivery of a range of legal aid services to some of the most disadvantaged people in society, within a budget that is inevitably under increasing pressure.

On my arrival as the LSC's new Chair, just after the end of the year, it was encouraging to see many positives:

- a high level of engagement in reviews such as Clementi and the Government's Fundamental Review of Legal Aid
- a new strategy for the CLS in its final stages of development, since launched in July 2005
- improved thinking around how to pay for suppliers' services and evaluating what we buy as well as focusing on relationship building with suppliers in our Preferred Supplier initiative

- ensuring access to information with the launch and expansion of a new telephone service, Community Legal Service Direct, providing clients with free specialist advice about benefits, tax credits, debt or education. Over 200,000 calls were received between its launch in July 2004 and March 2005. Our internet site www.clsdirect.org.uk formerly Just Ask! carries information about where people can get advice and has received 28% more visitors since its re-launch
- a strong commitment to working with others in the Criminal Justice System and securing recognition of the impact their programmes have on the cost of criminal legal aid to the taxpayer and its effectiveness for clients
- a determination to improve control of the cost of criminal legal aid and value for money across the full range of funded services including Very High Cost Criminal Cases
- an organisation working through a major restructuring with a strong emphasis on leadership, equality of opportunity and the importance of taking the people who work at the LSC along with every stage of its development
- a focus on tailoring services to the needs of clients and a determination to measure the LSC's own performance in ways that directly lead to improvements in the delivery of these services.

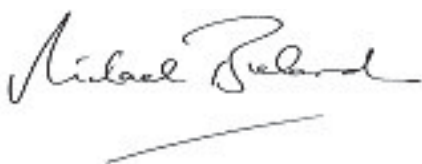
At the same time I became aware of the demands that such a complex and diverse programme of work places on the organisation and the challenges the LSC faces in communicating its Vision for client-focused services to service providers and in engaging funded suppliers with its plans for new approaches to remunerating and working with them. The challenges of achieving reform cannot be avoided but the LSC must also maintain access to justice for clients across England and Wales while suppliers tackle these same challenges.

During the year there were considerable changes among the non-executive board. The LSC welcomed Tina Fahm and Dr Lily M Segerman-Peck to membership and then in July 2005 Lionel Joyce OBE and Beryl Seaman were appointed, bringing the non-executive body to 10. It is also expected that the Secretary of State will appoint an advocacy specialist as a non-executive Commissioner in the near future. The appointment of David Godfrey as Executive Director for Corporate Services completed the Executive Team created during the organisational restructuring.

On behalf of everyone at the LSC I thank those non-executive Commissioners whose terms of appointment came to an end in 2004/05, Philip Ely OBE, Sheila Hewitt, Yvonne Mosquito, Margaret Richards and Jim Shearer OBE. Philip and Jim served as Chair and Acting Chair of the LSC respectively and I am personally grateful to both of them for the sound basis from which I can now move forward.

“We continued to work on the complexities of securing the delivery of a range of legal aid services to some of the most disadvantaged people in society.”

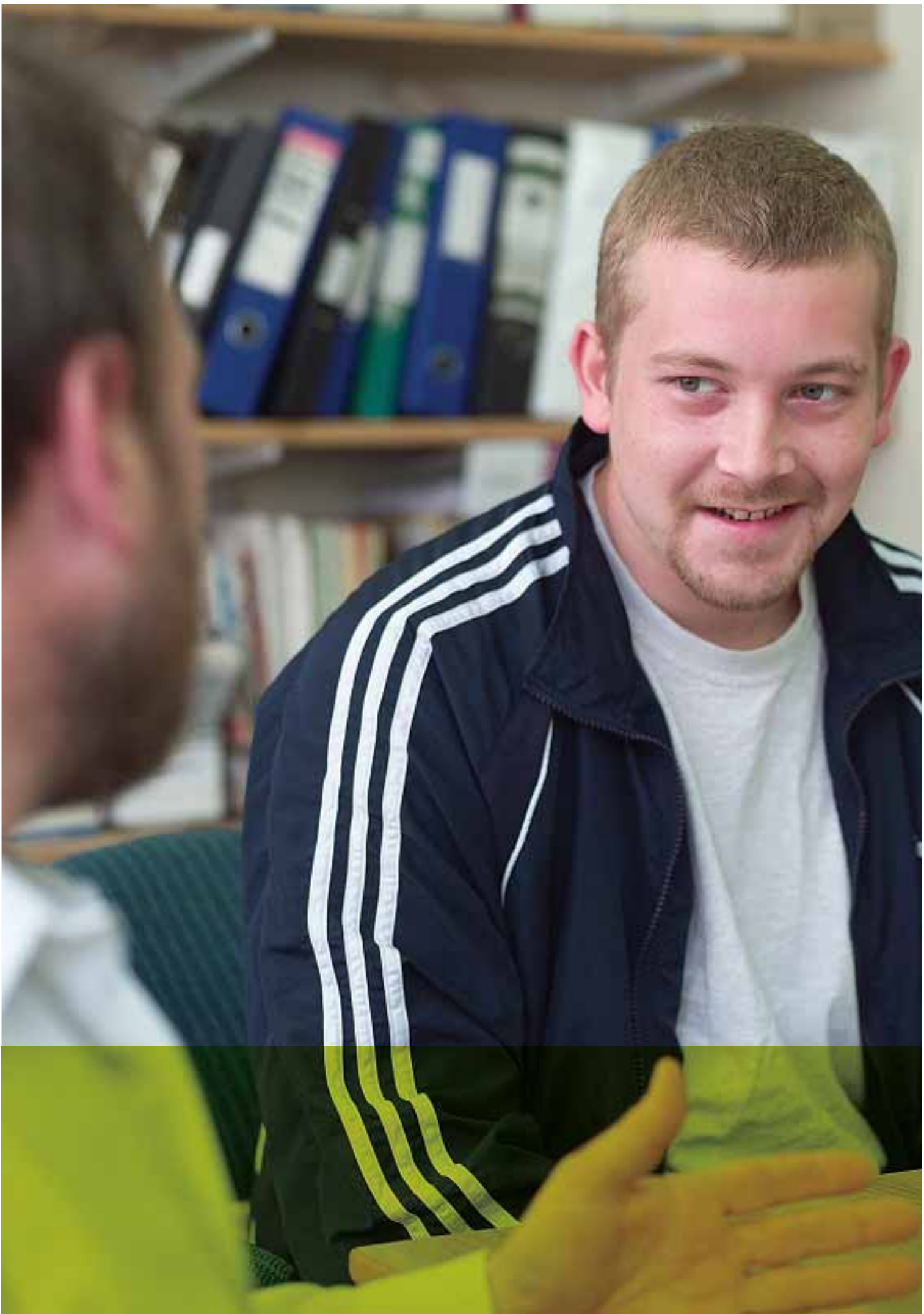
In my first few months of appointment I have been impressed by the degree of commitment to our Vision and values among people at the LSC. There is still work to do to sharpen up our Vision for where we want to be over the next three to five years and the milestones for achieving it. We need to answer fundamental questions about what we mean by quality and how we are going to reform the supplier base so that we can deliver real improvements in services to clients who use publicly funded lawyers and advisers. I look forward to working with everyone at the LSC and the Department for Constitutional Affairs and with the LSC's partners and stakeholders in what promises to be a challenging term of appointment.



Sir Michael Richard

Chair, Legal Services Commission
July 2005





Introduction

What is the Legal Services Commission (LSC)?

The LSC is responsible for the provision of legal aid in England and Wales. Our clients are often vulnerable and socially excluded people who may have a variety of problems in areas such as welfare benefits, debt or crime. Through the provision of information, advice and legal representation, we help around two million people each year to get access to justice.

The LSC was established under the Access to Justice Act 1999, replacing the Legal Aid Board in April 2000. We are a non-departmental public body sponsored by the Department for Constitutional Affairs (DCA). The Secretary of State for Constitutional Affairs is accountable to Parliament for our activities and performance. With a head office in London, the LSC employs some 1,800 staff in 15 offices across England and Wales. We also operate eight Public Defender Service offices. A board of independent Commissioners oversees our work.

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

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

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

The Community Legal Service (CLS)

The CLS consists of a network of legal and advice providers; we work with a range of partners across government and the private and voluntary sectors. The network includes solicitors and citizens advice bureaux, law centres and community organisations that have achieved the Quality Mark. Through the CLS, people can access relevant, high quality information, advice and assistance to help with matters as wide-ranging as mental health, debt, asylum, housing, employment, community care and education.

The help on offer varies according to the nature of the problem. It may take the form of basic advice, information leaflets or signposting to other services, some of which are funded by local authorities and other government departments. It may also involve specialist legal advice, including taking cases to court when necessary, with legal aid funding available to those who are eligible.

The Criminal Defence Service (CDS)

The CDS exists to provide advice and representation to those under investigation or facing criminal charges. In ensuring that those accused of crimes have access to representation, the CDS is fundamental to both the fairness and efficiency of the Criminal Justice System. It can also act as a gateway into the Community Legal Service, where addressing the underlying causes of offending behaviour can reduce the risk of re-offending.

We fund a network of duty solicitors to advise clients at police stations and represent them at magistrates' courts. Public defenders also act directly for clients in more than 4,000 criminal cases each year through our Public Defender Service.

What is our Vision for the future?

The core purpose of the LSC is to help people in genuine need to receive high quality legal advice and assistance. As a public body, we are in the forefront of the Government's plans to modernise justice.

Our Vision for the future is that we want to be:

- resolutely focused on our clients
- delivering innovative, high quality, high value legal advice and services through top quality suppliers
- an organisation inspired by strong, visible leaders where people are proud to work.

“The Legal Services Commission spends £2 billion on legal and advice services to help around 2 million people with their problems every year.”

Community Legal Service, Criminal Defence Service and Commission payments 2004/05¹

	Payments (cash) £m ²	Acts of Assistance 000s ²
CLS Licensed Work (gross)	763.5	201.93 ³
less operating receipts	(273.3)	–
CLS Licensed Work (net)	490.3	–
CLS Controlled Work	355.6	654.3
CLS total	845.9	856.1
CDS payments (gross)	510.9	1,463.7
less operating receipts	(1.2)	–
CDS payments (net)	509.7	–
Legal Services Commission Total (net)	1,355.6	2,319.8
Crown Court and higher courts representation (net)	682.4	115.6
Total	2,038.0	2,435.4
Commission	102.7	–

1 CLS payments include Commission funded payments only.

2 These figures may not sum to the total due to rounding. Some clients may have received more than one act of assistance during the year, and some acts of assistance may help more than one person.

3 Includes eligible clients in family mediations.

4 Commission includes payments of £96.4m for our own administration and £6.3m under the Crown Court Service Level Agreement.

How much does our work cost?

As a public body, the LSC aims to make the best use of the resources available to ensure value for money and access to high quality services.

In 2004/05 we received a total of £2.0bn to fund our services. We spent £96.4m on administration.

Each year the LSC helps around two million people. Our work accounts for less than 1% of total Government spending and around 54% of DCA's budget.

About our Annual Report 2004/05

Our Annual Report 2004/05 reviews the LSC's progress during the year towards fulfilling our commitments and objectives, as agreed with the Secretary of State and set out in our Corporate Plan 2004/05 – 2006/07. Our corporate plans are published on our website

at www.legalservices.gov.uk and set out how we intend to achieve our targets for each year.

The Commission sets its objectives in discussion with the DCA. The DCA in turn agrees its overarching Public Service Agreement targets with the Treasury.

The focus of our annual report this year is on three key areas:

- Community Legal Service
- Criminal Defence Service
- enabling delivery.

At the start of each section, we set out our detailed commitments, which are taken from the Corporate Plan 2004/05 – 2006/07. For each commitment, we state whether the target was achieved, partially achieved,

not achieved, or priorities changed, and give a summary of our performance. In the CLS and CDS sections, our specific targets relate to the Public Service Agreements. In the enabling delivery section our specific targets relate to our strategic objectives.

Unless otherwise stated, figures given in the text are on a cash basis, recording the amount that we spent during the financial year regardless of when the services were actually provided. This provides continuity with figures given in the LSC's previous annual reports. Our audited financial statements for 2004/05 are at the back of this report. In accordance with *Government Accounting*, our financial statements are prepared on an accruals basis, so that expenditure is matched to the period when the services bought with it were provided.

DCA Public Service Agreement targets relevant to the LSC:

- Increasing public confidence in and satisfaction with the justice system
- Increasing the number of criminal offences brought to justice
- Reducing the proportion of disputes only resolved by resort to litigation
- Increasing the amount of assistance available to the socially excluded
- Focusing the asylum system on those genuinely fleeing persecution
- Increasing the justice system's value for public money

Summary of key achievements and developments in 2004/05

Community Legal Service

During the year the LSC:

- delivered over 850,000 acts of assistance to those in need of help on civil matters
- achieved an increase in funding of £18.6m through partnership initiatives delivered through the CLS
- played an active role in key initiatives such as the Clementi Review and the Fundamental Legal Aid Review
- appointed a CLS Director
- developed a new strategy for the CLS which was launched in July 2005
- conducted a consultation on changes to scope and eligibility for civil legal aid
- rolled out quality measures such as quality profiles and peer review
- explored new ways of working with our suppliers, such as the Preferred Supplier pilot project
- investigated new ways of controlling costs and achieving value for money, including tailored fixed fees and controlling costs paid to expert witnesses
- launched Community Legal Service Direct to make services more accessible to people across the country
- worked in partnership with other key funders and providers of services to achieve the best results for clients, such as in children and family work
- achieved significant savings in key areas of work, particularly in immigration and asylum.

Criminal Defence Service

During the year the LSC:

- delivered 1.5 million acts of assistance to people suspected or accused of crimes
- maintained 100% national coverage of duty solicitor schemes
- worked with partners in the Criminal Justice System to influence the decisions that can impact on our own costs and efficiency and affect outcomes for clients

- agreed a Criminal Justice System Strategy for the CDS
- investigated new ways of controlling costs and achieving value for money, such as managed competition and CDS Direct
- developed opportunities for improving the quality of service provided by our suppliers, for example duty solicitor accreditation schemes
- obtained savings through implementing scope changes and continuing to contract for Very High Cost Criminal Cases.

Enabling delivery

During the year the LSC:

- implemented the key changes resulting from our organisational review. We now have four Directorates, each of which is led by an Executive Director – Policy and Planning, Service Design, Service Delivery and Corporate Services
- refined our programme management. The Change Programme Board oversees all project work within the LSC which is organised under five programme boards:
 - Community Legal Service
 - Criminal Defence Service
 - Children and Family
 - Supplier Management
 - Enabling Delivery
- rolled out a leadership development programme to help us achieve our objective of being an organisation led by strong, visible leaders
- improved our performance measurement system, which is used as a key source of management information
- rolled out equality and diversity training for all Commission staff
- launched a more accessible and user-friendly website at www.legalservices.gov.uk
- delivered a programme of communications, including promoting legal aid work to students and young lawyers as a career of choice
- improved our complaints procedure and achieved 90% against our target of 85% on the national customer service score.

Our non-executive Commissioners¹

1. Sir Michael Bichard

Chair of the Commission since April 2005 and a trained solicitor, Sir Michael is a former Chief Executive of the Benefits Agency and Permanent Secretary of the Department of Employment. He is also Rector of the University of the Arts, London.

2. Angus Andrew

Appointed in March 2004, Angus is a solicitor with 30 years' experience of publicly funded legal services. He is also a part-time Chair of the Residential Property Tribunal Service and the Adjudication Panel for England.

3. David Edmonds CBE

Appointed in March 2004, David is also Chair of NHS Direct and was until recently a non-executive Board member of Ofcom. He has considerable experience with public sector and voluntary organisations.

4. Anthony Edwards

A solicitor and senior partner at TV Edwards, and a specialist in professional conduct. He is also Head of Professional Service for the Public Defender Service.

5. Tina Fahm

The Director of a management training company and Senior Strategic Adviser to the Neighbourhood Renewal Unit, Tina is also a member of the Ethnic Minority Business Forum of the Small Business Service.

6. Juliet Herzog

A former Liverpool councillor, Juliet is a solicitor and consultant in insurance practice. She is a member of the Council of Management of Merseyside Trades Union Community and Unemployed Resource Centre, and the Civil Procedure Rule Committee.

7. Tom Jones OBE

Appointed in March 2004, Tom is Chair of the Millennium Stadium Charitable Trust and the Wales Council for Voluntary Action. He is a Welsh speaker and a working farmer, with a lifelong knowledge of rural issues.

8. Lionel Joyce OBE

Lionel was appointed to the Commission on 1 July 2005. He was formerly Chief Executive of Newcastle City Health Trust, Chair of Turning Point and has chaired a number of inquiries for Strategic Health Authorities. Lionel is currently Chair of Mental Health Providers.

9. Beryl Seaman

Beryl was appointed to the Commission on 1 July 2005. Originally a social worker she is a Commissioner for the Commission for Social Care Inspection, Chair of Voluntary Action Sheffield and a magistrate.

10. Dr Lily M Segerman-Peck

A consultant in Business and Professional Development and an Independent Assessor for the Office of the Commissioner for Public Appointments. She is also Director of Women's Pioneer Housing Ltd and Chair of the Menerva Educational Trust.



¹ Philip Ely OBE, Sheila Hewitt, Yvonne Mosquito, Margaret Richards and Jim Shearer OBE also served as Commissioners during 2004/05. Sheila retired from the LSC at the end of September 2004 and her three colleagues retired at the end of March 2005. Philip Ely served as Chair until 31 December 2004 and Jim Shearer as Acting Chair from 1 January to 31 March 2005.

The Executive Team

1. Clare Dodgson

Chief Executive and Executive Commissioner

Clare joined the Commission as Chief Executive in June 2003. Prior to this Clare was Acting Chief Executive of Jobcentre Plus within the Department for Work and Pensions.

2. Brian Harvey

Deputy Chief Executive

Brian joined the Legal Aid Board in 1989 as Human Resources Director and later became Director of Resources and Supplier Development. He was appointed to his current role in June 2004.

3. Richard Collins

Executive Director for Policy and Planning

Richard joined the Legal Aid Board from the Law Society in 1992 as a policy advisor. He was Director of the CDS and was appointed to his current role in June 2004.

4. David Godfrey

Executive Director for Corporate Services

David joined the Commission in April 2005. Prior to this he was Chief Financial Officer and Senior Vice President of Misys Hospital Systems in the USA.

5. Mike Jeacock

Executive Director for Service Delivery

Mike was appointed in June 2004 having joined the Commission in July 2002 as Director, England and Wales. Prior to this he worked mainly in the financial services sector.

6. Jonathan Lindley

Executive Director for Service Design

Jonathan took up this post in June 2004 after joining the Commission in 2003 as Director for Performance and Change. He was formerly Contract Centre Programme Director at Jobcentre Plus, and a member of the Senior Civil Service.

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Community Legal Service

The Community Legal Service (CLS) is a network of legal and advice providers, some of which are funded by the LSC through the CLS Fund. Working with partners, we contribute to:

- helping vulnerable people with their problems
- tackling social exclusion
- addressing the causes of offending behaviour.

Through the CLS, people have access to high quality information, advice and assistance to help with their problems.

The LSC aims to join up services with a network of CLS providers to deliver services that meet client needs. In addition to LSC funded civil legal aid, the CLS network includes advice services and information provided by a range of other funders including local authorities, central government departments and not-for-profit organisations.

The LSC is the only organisation with a statutory duty (under the Access to Justice Act 1999) to develop and maintain the CLS.

The CLS has achieved a lot in the last five years: most importantly a real improvement in the quality of advice for clients. Engaging with national partners in the Community Legal Service and the Criminal Justice System is a major focus for the LSC. This helps us influence social policy as it is being developed, rather than responding to it once it is in place. Working effectively with our partners also helps us to provide clients with broader access to services and to improve efficiency and value for money. Following consultation with these partners as well as with other funders and service providers in the CLS, we will continue to develop the CLS Strategy for the next five years (2005 - 2010), strongly focused on our clients and the civil rights of individuals.

CLS policy and planning

The context for policy development

The LSC's work is part of a wider system involving the Government, legal aid suppliers, not-for-profit agencies, the courts and the police. Several reviews took place in 2004/05 aimed at improving delivery of legal services. The most significant are outlined below. The recommendations from these will inform our decisions relating to legal aid policy.

The Clementi Review

During 2004, Sir David Clementi, former Deputy Governor of the Bank of England and current Chairman of Prudential plc, was asked by the DCA to undertake a review of the regulatory framework of legal services in England and Wales.



Domestic violence guidance

Joyce came to the UK from Ghana with her husband and daughters so that her husband could pursue his PhD. Joyce's husband was abusive towards her and their children. Joyce contacted Staying Put, a service for women experiencing domestic violence who want the violence to stop but do not want to leave their home. Part of the project's funding is a £120,000 grant from the LSC's Partnership Initiative Budget, which pays for a legal support service project worker. She helped Joyce obtain a Non Molestation Order,

an Occupation Order and Residency Order so that she and her family could remain in their home. Her husband returned to Ghana but took Joyce and their daughters' passports before leaving, making their effort to gain permanent residency in the UK difficult. Staying Put has helped Joyce and her daughters to find accommodation, rebuild their lives and make contact with the Bradford Law Centre where they are being helped with their visa status.

“Through the CLS we work with solicitors, not-for-profit organisations, local authorities and central government to help people access high quality information, advice and assistance, helping some of the most vulnerable people in our communities.”

Specific targets 2004/05 for tackling social exclusion (as published in the Corporate Plan)	Status	Progress in 2004/05
Increase by 10% the number of people who receive suitable assistance from non-immigration Commission contracted services in priority areas of law involving social exclusion	Not achieved	Uptake of new case starts for non-immigration declined by 5%. Contributing factors included a reduction in problems with a legal solution and an increase in alternative forms of advice delivery. The LSC has developed strategies to extend coverage for 2005/06.
Increase by £15m the resources from other partners invested in the CLS which tackle social exclusion	Achieved	We achieved an increase in funding of £18.6m through partnership initiatives delivered through the CLS.

Key milestones for co-operation across departments and agencies (as published in the Corporate Plan)	Status	Progress in 2004/05
Launch of Consumer Direct in three regions in the Summer of 2004	Changed	Consumer Direct, providing help and advice to consumers, was launched in Summer 2004 and funded by the Department of Trade and Industry.
Launch of National Debt Gateway in 2004/05	Changed	The Department of Trade and Industry leads on this project. It is currently in the planning stage and will be piloted later in 2005 under the name National Debt Helpline. We are working with the team responsible to identify how the new service fits with Community Legal Service Direct and whether there are opportunities for linkages.
Roll out of partnership with Jobcentre Plus from July 2004	Changed	We identified problems with the model adopted after a pilot in the Eastern region. We will continue to work with Jobcentre Plus to find a more effective way of ensuring their clients have access to the legal advice they need.

The scope of the review was to:

- consider what regulatory framework would best promote competition, innovation, and the public and consumer interest in an efficient, effective and independent legal sector
- recommend a framework which would be independent in representing the public and consumer interest, comprehensive, accountable, consistent, flexible, transparent, and no more restrictive or burdensome than is clearly justified.

The review was published in December 2004 and recommended a regulatory model that would see the professional bodies devolving representation from their regulatory bodies.

The LSC welcomed both the opportunity to respond to the consultation paper and the terms of the review. We believe that the Clementi Review is likely to open up the legal services market, providing much greater flexibility in how we can deliver services for clients in the future.

The Independent Review of the Community Legal Service

The DCA commissioned Matrix Research and Consultancy to undertake an independent review of the CLS to ascertain whether it was achieving its stated aims after three years of operation. The review commenced in September 2003 and was published in April 2004.

The broad aims of the review were to:

- assess the impact of the CLS in meeting legal need in its delivery of legal advice and guidance
- establish whether the processes and structures in place enable the delivery of effective and appropriate high quality and timely legal advice and guidance which is accessible to all those who need it.

The review identified key areas for development of the CLS:

- clarifying the aims and functions of the CLS
- establishing the evidence base for the CLS
- developing funding streams and procedures
- ensuring quality
- translating the CLS aims into local provision.

The LSC had already identified many of the issues raised by Matrix. We implemented some of the key proposals in 2004/05, such as the appointment of a CLS Director.

The Constitutional Affairs Select Committee

The Constitutional Affairs Select Committee examines the expenditure, policy and administration of the DCA and associated public bodies. It therefore periodically investigates aspects of the LSC's work.

During the year the LSC was involved in the following inquiries: *Legal Aid: Asylum Appeals*; *Draft Criminal Defence Service Bill*; and *Civil Legal Aid: Adequacy of Provision*. The Chief Executive, Clare Dodgson, and the then Chair, Philip Ely OBE, were called to give evidence before the Committee in its inquiry into the draft Criminal Defence Service Bill.

The LSC considers the Select Committee recommendations most carefully. They are particularly significant in informing our policy and strategy.

The Fundamental Legal Aid Review (FLAR)

FLAR was announced in May 2004 in response to concerns about the focus of publicly funded legal services. A dedicated team within the DCA led the review in conjunction with the Prime Minister's Strategy Unit and worked closely with the LSC.

FLAR looked at the long-term future of the legal aid system, focusing on how best to provide publicly funded legal services to those who need them. This included looking at a range of delivery options to consider:

- how legal aid can best be used to help people improve their lives and prevent social exclusion
- how in the longer term we can better focus legal aid expenditure and enhance the benefits gained from it
- how legal processes and innovative ways of delivering legal services can be developed to ensure the best use of taxpayers' money.

The DCA published the outcomes of FLAR in a paper entitled *A Fairer Deal for Legal Aid* in July 2005. The report is available on the DCA website at www.dca.gov.uk.

CLS Strategy

A number of developments over the last 12 months pointed to a need to redefine and take the next steps in developing the CLS, for example:

- the Legal Services Research Centre's *Causes Of Action: Civil Law and Social Justice* provided a major analysis of the incidence of 'justiciable problems' (problems which may have a legal solution) and of the ways in which clients get help
- there has been a significant amount of external analysis of the CLS, notably the Independent Review of the CLS by Matrix, the Fundamental Legal Aid Review led by the DCA and the report of the Constitutional Affairs Select Committee on civil legal aid
- the DCA has also published its own five-year strategy, which has key priorities based upon protecting vulnerable groups, proportionate dispute resolution and asylum and immigration.

During 2004/05 the LSC worked to redefine what we want to achieve with the Community Legal Service, focusing on what clients need by developing a CLS Strategy for the next five years. The new strategy for the CLS focuses on:

- providing individual advice, assistance and representation for the clients who need it most
- strategic work with other organisations to reduce demand for services by removing the root causes of problems

- educating people about how to protect their rights.

The CLS Strategy outlines our aims to:

- better join up civil legal aid with wider advice services funded by others
- expand some services that will be available to all
- provide better access to advice and representation to those with the most problems in the poorest areas, whilst maintaining access elsewhere
- provide integrated and seamless services – which can deal with a range of problems in different categories of law, from basic legal advice to complex litigation, and which minimise the need for referrals
- obtain better value for money by co-ordinating different funding streams
- deal with the institutional causes of problems that clients face.

To make our new vision for the CLS work for clients and the strategy a success we will actively engage with our partners in the Community Legal Service, including local authorities, local family boards, the Law Society and not-for-profit agencies such as Citizens Advice and the Law Centres Federation.

Further information on the CLS Strategy is available on our website www.legalservices.gov.uk.



The CLS in Wales

The work of the CLS covers both England and Wales. The Access to Justice Act 1999 makes no distinction between how its functions are fulfilled in England and Wales. We recognise the diverging needs and the increasing legislative and policy differences between England and Wales.

The fact that Wales is a country with a distinct identity, and that some key aspects of its government are devolved, means that

there are more Wales-wide umbrella bodies than there are in the English regions, and many cross-border organisations engaging with our partners.

The realisation of these important differences influences our policy, design and delivery functions in Wales. The new CLS Strategy aims to build upon the existing work on an advice strategy for Wales. We will undertake further work with the Welsh Assembly Government and other stakeholders to inform our delivery of CLS services in Wales.

A New Focus For Civil Legal Aid – Funding Code Consultation

The Funding Code sets out the rules and guidance which determine whether an individual case can receive funding from the CLS. Following a consultation period between July and October 2004, a wide range of changes to financial eligibility and family and non-family funding rules were introduced to regulations and the Funding Code in April and July 2005.

Key milestones for developing the CLS (as published in the Corporate Plan)	Status	Progress in 2004/05
Establish CLS Direct by July 2004	Achieved	We launched Community Legal Service Direct on 14 July 2004.
Develop quality measures for publicly funded services by December 2004	Achieved	We introduced quality profiles, which indicate how suppliers are performing on their cases, in December 2004.
Pilot preferred supplier arrangements with some of our best legal aid providers from June 2004 and roll out from April 2005 to all providers who can meet the criteria	Changed	We started the Preferred Supplier pilot in June 2004. We have deferred a full roll out until 2006, to allow time for completion of an evaluation and formal consultation on the resulting proposals.
Establish a mental health pilot project to test the introduction of managed competition and a more holistic service for mental health clients by August 2005	Changed	This project is underway and consultation will commence in September 2005. Our policy has now moved away from testing managed competition under this project. Our focus is now on the testing of a combined social welfare category incorporating combinations of existing categories defined as social welfare law. This is in accordance with the new CLS Strategy.
Establish a pilot project to test the introduction of managed competition into the delivery of social welfare law by August 2005	Changed	This project is underway although it will not necessarily test managed competition. Consultation is expected in September 2005. Slight delays were caused by the development of the new CLS Strategy and the need to fully consider the proposed mental health legislation that this project will address.
Establish National Occupational Standards for individuals working in the legal and advice sector by January 2006	On track	This project is continuing with our support. Standards are currently under development and are on target for completion by January 2006.
Introduce a new contract for suppliers at the latest by 2007	On track	We aim to consult on proposals for new general civil and crime contracts during 2005/06.

The overall package is expected to save £50m over three years.

The changes encourage the early settlement of disputes and consider litigation as the last resort. This is reflected in proposals to pilot radical new arrangements for family legal aid, and in the greater use of complaint schemes and mediation for non-family disputes. The pilot for Family Help, a new form of legal aid covering advice and early representation is expected to begin in September 2005.

Following the consultation, financial eligibility rules were harmonised for all types of legal aid, with increased entitlement for Legal Help and domestic violence victims. Existing exemptions for equity in the home were preserved and there were no significant changes in the scope of civil legal aid.

New powers are also being introduced to improve recovery of costs at the end of a case through the operation of the statutory charge. The LSC holds a statutory charge on property that people have recovered during a civil case. This is one way that the LSC recoups legal aid costs.

What has emerged from this process can be seen as a long-term, stable basis for legal aid in terms of scope, financial eligibility and merits criteria. This does not of course rule out reforms arising from the Fundamental Legal Aid Review or elsewhere relating to purchasing arrangements, underlying court processes or other category-specific initiatives.

CLS service design Preferred Suppliers

It is our aim that all legal aid clients have access to quality advice and assistance. The Preferred Supplier initiative represents a new way of working with the legal profession for the benefit of our mutual clients, designed to help us achieve this aim.

The introduction of franchising and contracting made considerable progress towards improving the quality of service provided by legal aid suppliers. The Preferred Supplier approach takes this further, by identifying our higher performers using a range of quality tools and indicators that better assess the quality of advice delivered. 'Preferred suppliers' are service providers who perform to the highest standards, both in terms of quality and value. The best suppliers can benefit from reduced bureaucracy and auditing, delivering efficiency savings for them and for the Commission. We also want to give them greater decision-making authority so that they can respond to their clients' problems even more rapidly.

We are using the information we gained from our Preferred Supplier pilot to decide how best to shape the way we work with suppliers in the future to achieve the best results for clients. This is now being evaluated and we will consult on the way forward later in 2005. Subject to evaluation and consultation, we hope to roll out a Preferred Supplier scheme nationally in 2006. This is expected to be the framework for all our other projects and initiatives relating to suppliers.

The Preferred Supplier pilot

The LSC aims to improve the working relationship with our best suppliers by allowing them more autonomy and taking a 'lighter touch' on audit. The first step towards this was the Preferred Supplier pilot project. This involved assessing supplier performance across a range of indicators relating to cost, content and quality of advice, to identify high performers that we could work with over the pilot period. The pilot ran between June and December 2004.

Prior to the pilot, the LSC had traditionally focused on how to work with suppliers where we had identified performance concerns. The pilot project was designed to determine the relationship we should have with suppliers operating at the other end of the spectrum, where no concerns are raised across any area of their performance.



Dowry recovery solicitor

Jacqui French's firm French & Co hold LSC awarded Quality Marks in housing, education, family, immigration, public law, welfare benefits and debt. Jacqui spends the majority of her time on legal aid cases working on dowry recovery for clients in England, from South East Asian communities. She is one of only a handful of solicitors undertaking this type of work in the country. For some women it is customary for their families and parents-in-law to give them considerable sums of money, and other gifts such as jewellery, which

they often hand over to the mother-in-law as a sign of respect, if living in an extended family situation. Sadly, this practice is open to abuse where a man may marry a young woman, take her dowry and then leave her. Jacqui's work in this area is complex as the men concerned cannot be prosecuted for theft under English law. Usually her only option is to trace the trail of the dowry and charge the person (often the man's mother) who keeps the dowry with theft, after which the client's possessions can be recovered.

Project aims

The LSC aims to develop a process for identifying and working with preferred suppliers, in order to:

- define how we can work with our highest performing suppliers more efficiently and effectively, and to investigate the potential for encouraging all suppliers to operate at this level
- explore the potential for the LSC to have a greater strategic influence in determining what services we purchase and where, who we purchase them from and what types of rewards and incentives we can offer suppliers in return.

Participants

We identified 25 suppliers from across five pilot regions to work with us over a six-month period. Throughout the pilot, these suppliers helped us to test a range of rewards and incentives aimed both at helping them develop their legal aid businesses and ensuring that we can develop mutually beneficial strategic partnerships.

The regions involved in the pilot were: East Midlands; London; North Western; South Eastern and West Midlands. A 'Relationship Manager' was appointed from each LSC regional office to support five pilot participants in their region.

Benefits for preferred suppliers

We developed a number of rewards for all legal aid suppliers taking part in the pilot including:

- enhanced business processing and payment arrangements with the LSC
- reduced bureaucracy and LSC intervention
- ongoing support, tailored around the needs of the supplier, from a dedicated LSC Relationship Manager
- an efficiency review to help firms to reduce bureaucracy, streamline their systems and improve customer service
- an LSC funded student training grant worth up to £30,000 over a three-year period.

Evaluation and roll out

Through the pilot we have identified that the Preferred Supplier initiative is capable of delivering a number of key benefits for the LSC, our suppliers and, most importantly, our clients.

The pilot enabled us to explore some of the methods and approaches that we wish to use in the management of all contracted suppliers in the future. It proved that it is possible to have a more constructive, less intrusive relationship with suppliers without compromising quality or increasing cost.

We will use the evaluation of the pilot to develop a fully comprehensive scheme that can be applied to a wider supplier base. We also contracted independent consultancy services to provide a challenge function to the Preferred Supplier evaluation, and to support the production of an implementation feasibility study.

We recognise that the benefits identified will only be fully realised if suppliers and our regional offices are given the time to prepare and equip themselves for operational implementation. The timetable for the Preferred Supplier initiative will be finalised following detailed consultation and the consultation paper will be published on our website at www.legalservices.gov.uk later in 2005.

Ensuring the quality of services

We aim to work with trusted service providers who can deliver the quality services that all our clients need. In addition to our existing auditing processes, we developed the following tools during 2004/05 to measure quality:

- peer review, where experienced practitioners review the work of their peers, is already in place and is being developed further
- file assessment, a simplified audit process that is being developed to indicate the likely peer review rating of a supplier

- quality profiles, where we use information reported by suppliers on the outcome and profile of cases, to build a picture of the quality of work being carried out by that supplier over time.

Peer review

We are committed to ensuring that clients receive high quality service, and feedback indicates that independent evaluation by experienced peers is the most appropriate assessment of quality of advice. The LSC has used peer review for some time as an audit tool and aims to develop it further.

Experienced practitioners conduct peer reviews by assessing a random sample of another supplier's case files using a standard criteria and ratings system developed for us by the Institute of Advanced Legal Studies. The Institute also manages the recruitment and training of peer reviewers, as well as overseeing the operation of the process to ensure that it offers an independent assessment of the quality of advice and legal work provided to clients by legal aid suppliers.

Peer review covers nine categories of law: community care, crime, debt, employment, family, housing, immigration, mental health and welfare benefits. We expanded capacity during 2004/05 by increasing the number of qualified peer reviewers.

On 31 March 2005 we issued a consultation paper entitled *Independent Peer Review of Legal Advice and Legal Work*. It sets out how peer review will:

- be utilised nationally as the most accurate assessment of quality of advice and legal work
- provide the key quality measure for the LSC's future supplier management strategy.

The consultation closed in June 2005 and the LSC will use the responses to inform the refining of the existing peer review process.

File assessment

File assessment is a simplified file audit process within the supplier management process which will:

- as part of the supplier management process, enable the LSC to ensure that clients are receiving high quality legal advice
- act only as a trigger to peer review or further audit investigation
- identify suppliers requiring a peer review in order to prioritise limited peer review resources.

The file assessment tool focuses on five distinct performance areas: quality of advice, client care, contract compliance, data integrity and value for money. In addition to gauging supplier performance, the assessment can inform a development plan to assist suppliers to achieve preferred supplier status.

The file assessment process is being developed and tested by both peer reviewers and senior LSC caseworkers. The LSC intends to communicate a more detailed operational process upon completion of further pilot work.

An indication of timeframes for the development of file assessment will be available on our website www.legalservices.gov.uk.

Quality profiles

The LSC's supplier management process now includes quality profiles, which provide an initial indication of how suppliers are performing on their cases.

When originally launched, the supplier management process focused audit activity on costs and contract information. With quality profiles now in place, we have extended the process to include an initial indication of the outcomes achieved for clients. This will enable the LSC at a national and at a supplier level to understand the level of risk that is presented both to the client and to the legal aid budget, and ensure an appropriate response.

Where a supplier is out of profile from what we would expect, we will not take direct action on the basis of the quality profile indicators alone. Our contracting teams have been trained in how to review the information, determine where audit activity is required and when a peer review should be requested.

In the longer term we will develop quality profiles to provide monthly monitoring of supplier performance.

Quality profiles cover nine categories of law at present: actions against the police, clinical negligence, crime, debt, employment, family, housing, immigration and welfare benefits.

Controlling the cost of services

In line with our corporate priorities, we are exploring a number of ways to achieve the best possible value for money when buying services. These include tailored fixed fees for civil (non-immigration) Controlled Work (see page 18) and competitive tendering for lower criminal work in London (see page 42). Value for money means getting the right quality at the right price. This work is vitally important, because the simple fact is that the more we can control costs, the more people we will be able to help.

We are taking forward these initiatives in the context of a new General Contract for civil work, which is due to be introduced in April 2007 for solicitors' firms and not-for-profit organisations. We will extend the existing not-for-profit contract by a year so that the starts of both new contracts will coincide.

Amongst the challenges we face are:

- the need to control individual case costs
- designing fee structures which motivate suppliers to provide the services that clients need
- moving towards paying for outcomes and outputs (success for clients) rather than inputs like time, letters or processes.

In summary, we aim to look at the best way of purchasing services to achieve positive outcomes for clients.



Tailored fixed fees

The LSC published a consultation paper in July 2004 entitled *A Tailored Fixed Fee Scheme for Civil (non-immigration) Controlled Work*. It proposed a new approach to paying solicitors for civil Legal Help, Help at Court and Controlled Legal Representation cases. The consultation ran until 1 November 2004.

Under the new scheme, we proposed to pay fixed amounts per case based on firms' average fees per case from 1 April 2003 to 31 March 2004, plus 2.5%. This is designed to replace the current system where the LSC pays for the time spent on individual cases.

Why we introduced the scheme

We want to increase the numbers of people helped through access to publicly funded legal services, but the legal aid budget is under financial pressure. The scheme of fixing fees per case is designed to improve control over the budget. It will enable the LSC and firms to plan more effectively, as we will know from the outset the price for each case. This will allow us to plan increases in new cases, secure in the knowledge that expenditure will fall within overall limits.

Benefits of tailored fixed fees

In addition the scheme offers a number of benefits to suppliers:

- a 2.5% increase on average costs for work carried out within the scheme
- no 'cost compliance audits' for work within the scheme, subject to satisfactory performance against a range of indicators
- payments without risk of later review and reduction by the LSC in most cases
- the ability to increase profitability by making efficiency savings, up to certain limits
- the number of new cases allocated by the LSC cannot be reduced as a result of rising average costs as prices are fixed
- firms are no longer required to seek authority to extend financial limits for cases within the scheme.

Improvements following consultation

A total of 89 responses were received to the consultation paper, including those from solicitors' firms and representative bodies such as the Law Society, Legal Aid Practitioners Group and the Mental Health Lawyers Association. After considering them, we made significant changes to the tailored fixed fee scheme.

Key changes to the scheme included:

- mental health lawyers are able to choose whether to include their work within the scheme
- the financial threshold for an 'exceptional case' was expanded. Additional payments can now be claimed for exceptional cases which cost at least three times the tailored fixed fee or £2,500 (whichever is the lower) and are out of profile with previous claims
- the LSC pays any increase in overall average disbursement costs, not just those attributable to clients with special needs. This change and the expansion of the financial threshold should enable suppliers to take on more costly or complex cases.

Implementation

Firms eligible to join the scheme were invited to sign up voluntarily from the date of publication of the consultation paper, so that they could benefit from the new payment levels and processes that the scheme offered.

The initial closing date for joining the voluntary scheme was 1 October 2004. Providers who account for over 65% of expenditure at this level (excluding mental health and immigration) voluntarily signed up to the scheme.

We extended the deadline for joining the scheme voluntarily until 28 February 2005. This was because we considered that more providers might have joined the scheme voluntarily if the revised arrangements for exceptional cases and disbursements had been proposed in the consultation paper.

Providers that had not already joined the scheme entered when it became mandatory on 1 April 2005.

The use of expert witnesses

The LSC launched a consultation paper entitled *The Use of Experts: Quality, Price and Procedures in publicly funded cases* on 26 November 2004. It contained proposals to improve the quality and cost control of expert witnesses in publicly funded cases, to simplify the procedures relating to the use of experts and to introduce standard terms of instruction. We have addressed and continue to address the quality and cost of lawyers' services, and now aim to improve quality and value for money in relation to the use of experts.

Why we need to change things

Rates for expert witnesses have been increasing and demand on the limited legal aid budget has also been increasing. In this context, it is right that the quality and cost of expert witnesses should be reviewed.

Key aspects of the proposals

To improve the quality of experts instructed in publicly funded cases, the LSC aims to:

- encourage experts to become accredited by the Council for the Registration of Forensic Practitioners or another appropriate body
- encourage solicitors to use accredited experts
- introduce guideline payment rates for experts in civil cases (these already apply to experts in criminal cases)
- abolish the 'prior authorities' scheme by which solicitors apply to the LSC to guarantee payment of the expert's fee. These are granted if we consider that the planned work and expert's fee are reasonable
- move from the system of paying solicitors on account for experts' fees on a case-by-case basis for civil cases to a system where solicitors are given annual or biannual payments to be used for experts' fees.

Benefits of the proposals

Key benefits of the proposals, in addition to those outlined above, include:

- raising the standard of forensic expert services by encouraging the use of accredited and therefore quality assured experts

- clear terms of appointment with faster payment and clear allocation of risk, avoiding delays, misunderstandings and consequent disputes
- simpler administration and procedures, reducing bureaucracy and saving costs
- greater clarity – particularly when guideline rates are followed – as to when fees may be reduced on assessment
- greater control over rising experts' fees.

The LSC believes that these measures to control the use of experts will improve access to high quality, value for money experts in legal aid cases.

Broadening access to services

The Commission made significant progress in giving people better access to legal services by launching Community Legal Service Direct on 14 July 2004.

The service integrated a new specialist telephone advice line with the existing website and public information leaflets, under one easy to identify brand. Now members of the public can simply call 0845 345 4 345 or click www.clsdirect.org.uk to get free information, help and advice on a range of common legal problems.

Community Legal Service Direct is a key part of our strategy to deliver improved access to justice and combat social exclusion by making it easier for the public to find quality legal help and information.

Community Legal Service Direct – call or click for free quality legal help and information

Through the telephone helpline (charged at local rate) people can:

- get free specialist advice about benefits and tax credits, debt or education. In some pilot regions, callers can also get advice about employment and housing. Clients who are eligible for legal aid receive a full casework service, delivered entirely over the phone and by post. The service is available between 9am and 5pm weekdays (outside office hours, people can leave a message and they will be called back)

- find quality local advice services for other types of problems
- order Community Legal Service Direct information leaflets which cover a wide range of common legal problems
- listen to recorded information 24-hours a day.

Through the website people can:

- search for a quality local legal adviser or solicitor
- see if they are eligible for legal aid using the online calculator
- view or print legal information, including the Community Legal Service Direct information leaflets
- ask a question or choose a topic and be directed to the right place on the best advice websites in the UK
- find links to other sources of online information and help from approved websites.

Performance and usage

Community Legal Service Direct is of particular help to people who find it difficult to access traditional legal services. This includes people with mobility problems, those living in rural areas and those with caring responsibilities or young children, who find it difficult to travel far.

Between its launch on 14 July 2004 and 31 March 2005, Community Legal Service Direct received over 200,000 calls. 47,648 callers spoke to a specialist adviser and 119,177 callers spoke to the operator service to find local advice providers. 74% of callers who were tested were eligible for legal aid. The monthly demand for the telephone service grew from 11,096 in August 2004 to 33,072 in March 2005.

Between July 2004 and March 2005, our specialist telephone advisers completed 21,867 cases. This can be broken down as follows:

Debt	10,119
Education	1,963
Employment	1,751
Housing	1,588
Welfare benefits	5,447
Other categories (under Tolerance)	999

We carried out our first user satisfaction survey of the Community Legal Service Direct national telephone service between January and February 2005, with exceptionally positive outcomes. 91% of respondents said they were 'very satisfied' or 'quite satisfied' with the service. 88% of users stated that Community Legal Service Direct either did work that helped solve their problem or provided them with information that enabled them to solve their problem themselves. In addition, 81% said that they either had 'already' or were 'certain to' recommend Community Legal Service Direct to another person in need of legal help or advice; a further 14% were 'likely to'.

Since the re-launch of the website in July 2004, 525,464 users have visited the Community Legal Service Direct website. The average number of monthly visitors to the website also increased by 28%, from 44,712 in 2003/04 to 57,407 in 2004/05.

Between July 2004 and March 2005, 1,332,485 Community Legal Service Direct leaflets were distributed directly to the public and advice organisations, and a further 109,396 were downloaded from the website. The *Divorce and Separation* and *Renting and Letting* leaflets continue to be the most popular.

Key milestones for children and family services (as published in the Corporate Plan)	Status	Progress in 2004/05
Pilot a new level of family service by end of December 2004	Changed	We did not roll this out in 2004/05 as we first had to resolve issues that arose from the Funding Code consultation, which would have impacted on the pilot. We expect to start the pilot in September 2005 to coincide with the New Focus reforms on civil legal aid (see page 14).
Roll out of new level of family service from April 2006 if the pilot proves successful	Changed	We will roll out the new level of family service in April 2007 if the pilot proves successful.
Permanent contracting arrangements for all family mediation suppliers by October 2004	Achieved	We had permanent contracts in force by 1 October 2004.
Expansion of the Family Advice and Information Service (FAInS) to provide a presence in all regions by December 2004	Achieved	We were running FAInS pilots in all regions by December 2004.
The FAInS approach to become a key criterion for the award of family contracts from April 2007	On track	We are still on track with this commitment.

Children and family services

Work in this category of law accounts for 25% of the LSC's total budget. There is a major reform currently underway. Several recent pieces of legislation – the Adoption of Children Act 2002, the Children Act 2004, the Domestic Violence Crime and Victims Act 2004, the Civil Partnerships Act 2004 and the Child Contact and Inter-country Adoption Bill published on 14 June 2005 will have a significant impact on our family work. We are also working to pilot projects encouraging earlier intervention in family conflicts, particularly where children are involved. This is part of our contribution to improving services to separating families as published earlier in 2005 in the Green Paper response, *Parental Separation: Children's Needs and Parents' Responsibilities – Next Steps*.

By working closely with the DCA, the Commission made an important contribution to the proposals in the Green Paper. We aim to continue this effective joint-working with both the DCA and the Department for Education and Skills, which has taken on much of the responsibility for work relating to children,

as the reforms move ahead. The Green Paper proposed two changes that will have a particular impact on the way we move forward:

- setting up a 24-hour telephone helpline for families. We are working on a pilot to test this service and exploring how it could work as part of Community Legal Service Direct
- piloting 'collaborative law'.

Family Advice and Information Service (FAInS)

Our FAInS initiative, which now involves 196 providers of family legal services, pilots a model for how legal advice and information may be delivered in the future. FAInS focuses on providing quality services through a network of providers working together to deliver the full range of different help and advice services that can be needed at difficult times for families. This emphasis on providing quality for clients is consistent with our Preferred Supplier approach (see page 15).

The LSC is expanding the delivery of FAInS to include mediators and the advice sector. Consultation groups – comprising members of representative organisations for the legal, advice and family mediation sectors – have also been set up to help develop the pilot.

The initial results have been positive and we are looking to incorporate elements of FAInS into the way the LSC manages non-family, publicly funded legal services.

Collaborative law

Clients entering a collaborative law process sign a participation agreement, committing both parties to resolving their dispute by negotiation and settlement out of court. This agreement states that both parties will have to instruct other solicitors, should settlement not be achieved and the case go to court. Solicitors and their clients work together to identify what additional support or advice the client needs at each stage, to enable the matter to be agreed.

Solicitors and practitioners involved in the delivery of the collaborative law pilot are currently completing training. We are working with the representative bodies and with the newly trained collaborative practitioners in the pilot areas towards the completion of pilot arrangements.

Mediation

The Government's Green Paper on parental responsibility proposes a review of current rules and practice to provide the strongest possible encouragement to all parties to

agree to mediation and other forms of dispute resolution. The LSC was involved in a Mediation Leaflet Pilot Scheme, run by the DCA and Court Service between October 2003 and July 2004. The pilot, run in 13 court areas, involved the Court Service distributing the LSC's *Family Mediation* leaflet and lists of local mediation services to people issuing ancillary relief and/or child contact proceedings.

The mediation leaflet pilot is currently being evaluated by the DCA. The LSC is continuing to investigate more flexible use of family mediation in a range of settings in line with the proposals discussed in the Green Paper response.

Permanent contracting for not-for-profit mediators

The LSC has contracts with high quality for-profit and not-for-profit mediators who provide publicly funded mediation services throughout England and Wales. The LSC has long-term contracts, with fixed fees, with its for-profit mediators which help it to maintain mediation services over a set period and better ensure value for money. The LSC introduced similar contracts for its not-for-profit mediators on 1 October 2004.

Immigration and asylum

Immigration and asylum policy

We have already done a lot of work to improve the quality of the advice provided to people who are at particularly vulnerable points in their lives, and to target expenditure more effectively to those most in need. We are now looking at a number of options to bring costs under even greater control and further ensure value for money. These include considering the introduction of fixed fees in immigration as we have with other civil areas of law and introducing measures to ensure good quality services, for example from barristers, experts and interpreters. We will also consider how best to provide advice to clients at the police station and in detention.

We are also actively involved in discussions with the DCA and Home Office on the policy decisions which inevitably have a significant impact on the demand for services and the cost of providing them.

Key workstreams and projects for immigration and asylum in 2004/05 included:

- exclusive duty solicitor schemes in fast track centres
- implementation of:
 - unique client numbers
 - accreditation
 - financial thresholds
- attendance at the Home Office interview removed from scope.



Family mediation

Jayne had been having marital problems with her husband for some time and they had agreed to separate. They needed to make decisions about the custody of their two children, their living arrangements and finances. It was suggested that they try to resolve their issues through family mediation. They visited Gaynor Walsh at Family Matters in Merthyr Tydfil, which receives funding from the LSC.

She encouraged them to put their differences aside and discuss what was best for their family. The mediation ensured that they co-operated to reach a settlement and avoided a more costly and acrimonious court resolution. The children now live with Jayne and see their father, who lives nearby, every week.

Specific targets 2004/05 for immigration and asylum (as published in the Corporate Plan)	Status	Progress in 2004/05
Increase the success rate for immigration and asylum cases receiving Controlled Legal Representation funding by 10% by March 2005	Partially achieved	The number of successful appeals rose by 2% between April and December 2004 but the dismissal rate at appeals increased by 7%. Following consultation we published criteria for suppliers to apply for devolved powers to grant funding in appeals. Suppliers with devolved powers have a success rate of 48% compared to an average of 34% indicating a partial improvement in success rates where the case was funded by the LSC even though adjudicators were dismissing a higher proportion of cases overall. This supports our aim of focusing legal aid on the more meritorious appeals.
Implement controls over immigration and asylum Legal Help and Controlled Legal Representation expenditure on individual cases, thereby saving £30m by March 2005	Achieved	Committed resource has been reduced by over £80m in 2004/05. This is a result of the drop in asylum intake as well as our measures to better control average case costs and our reforms that focus funding on cases with merit and minimise duplication of work between solicitors.

Key milestones for immigration and asylum (as published in the Corporate Plan)	Status	Progress in 2004/05
Publish an initial consultation paper for the control of interpreters by June 2004 and a further consultation by December 2004	Partially achieved	We published an initial consultation paper in September 2004. We carefully considered the responses received and it was clear that the issues surrounding the use of interpreters in this area of law are complex and varied. We will carry out further investigation before any decision is taken on the introduction of national guidance.
By July 2004, introduce duty solicitors scheme at the Harmondsworth detention centre, whereby asylum seekers have access to legal advice only from a list of approved solicitors	Achieved	We have been operating a duty representative scheme since April 2003. From July 2004 we limited fast track work at Harmondsworth to those suppliers with a specific contract. Mandatory accreditation was also introduced for the duty representatives before the April 2005 deadline.
By April 2005, introduce a duty solicitors scheme at the Oakington centre, under which client needs are tendered	Achieved	In April 2004 we limited the services to clients subject to a fast track process at Oakington to those with a specific contract to carry out that work. The Immigration Advisory Service and Refugee Legal Centre hold those contracts. Subject to satisfactory contract performance, they will run until the centre closes.

Key milestones for immigration and asylum (as published in the Corporate Plan)	Status	Progress in 2004/05
Publish a consultation paper on regulating the use of experts by October 2004	Not achieved	We issued a general LSC consultation on the use of experts in November 2004.
Open the first Immigration Employed Service Office (comprising directly employed specialist staff specifically trained to provide immigration services) by December 2004	Changed	In view of the significant reduction in asylum numbers, we are currently reviewing the proposal to open an Employed Immigration Service in Birmingham. We will make a decision about whether to proceed once we have fully evaluated existing supplier capacity following the implementation of accreditation.
By April 2005, require accreditation for all those undertaking publicly funded immigration advice	Partially achieved	The scheme became mandatory for all suppliers without accredited staff on 1 April 2005 and will become mandatory for those with accredited staff on 1 August 2005.

Exclusive duty solicitor schemes in fast track centres

In April 2004 we carried out a competitive bid round for asylum and immigration work at Harmondsworth detention centre. From July 2004 we limited fast track work at the centre to those suppliers with a specific contract. We only offered contracts to accredited suppliers.

From April 2004 we only allowed suppliers with a specific contract to provide services to clients subject to a fast track process at Oakington. The Immigration Advisory Service and Refugee Legal Centre hold those contracts. Subject to satisfactory contract performance, they will run until the centre closes.

Unique client numbers

This project involves work with the Home Office to ensure that a Home Office reference number is allocated to immigration and asylum clients as early in the application as possible. This ensures that applicants can be tracked and is designed to minimise unnecessary duplication of advice.

Accreditation

During 2003/04 we jointly announced proposals with the Law Society to introduce accreditation of lawyers and other caseworkers to ensure that clients get high quality legal advice and representation by 1 April 2005.

However, we were concerned that there might not be sufficient accredited advisers throughout England and Wales to guarantee access to services for clients. So for those that had already engaged with the process the deadline was extended until 1 August 2005. This enabled those who had been unsuccessful to re-take assessments in May 2005 whilst restricting the work that they could carry out in the meantime.

Financial thresholds

During 2004 we introduced financial thresholds for the amount of time suppliers could spend on preparing immigration and asylum applications to the Home Office. This has improved efficiency and control over expenditure. We introduced measures to extend the thresholds where necessary so that the quality of service for clients was not affected.

Committed resource has been reduced by over £80m in 2004/05, as a result of LSC reforms designed to focus funding on cases with merit and to minimise duplication of work between solicitors, measures to bring average case costs under greater control and a drop in asylum intake.

Attendance at the Home Office interview removed from scope

We removed attendance by representatives at the Home Office interview from the

scope of legal aid due to the limited role that representatives played. It remains in scope in exceptional circumstances, for example where a client is a minor, suffers from a mental incapacity or is subject to a fast track process.

Significant efficiencies were achieved during 2004/05 as a result of these new immigration and asylum measures.

Contracting and expenditure

During 2004/05, 393 solicitors' firms held an immigration contract. This is a decrease of 23% from 513 at the end of 2003/04. 25,408 immigration matter starts were taken up out of a final allocation of 33,141, whilst in asylum work, solicitors used 44,787 new matter starts out of a final allocation of 68,712. These are decreases of 22% and 40% respectively. 153,403 claims (comprising 30,070 stage claims and 123,333 completed cases) were made with a face value of £102.9m, a decrease of 42% compared to 2003/04.

101 not-for-profit suppliers held an immigration allocation, compared to 91 at the end of 2003/04. 19,504 claims were made, an increase of 41% compared to 2003/04.



Asylum

Fehmi Esen, a Kurd, and his family were subjected to persecution whilst living in Turkey due to his membership of an outlawed opposition party. He and his wife were detained for 18 months and suffered physical violence. Through the work of a human rights lawyer in Turkey they were temporarily released from detention. Subsequently the lawyer was accused of illegal political activities. Concerned for the safety of his family, Fehmi escaped to the UK. Upon arrival he was represented by the Immigration Advisory

Service but his application for asylum was refused. Fehmi then transferred his instructions to Paragon Law to appeal the refusal of his application. With the help of the LSC, solicitor Baljeet Sandhu took on the Esens' case, obtained detailed witness statements, and substantiated these with expert reports, case law and country guidance. Following their appeal the Esen family were granted asylum and are now living a happier life in the UK.

CLS service delivery

Funding the CLS

The Community Legal Service Fund provides the resources to pay for services for eligible clients whose problems fall within the scope of civil legal aid. We spent £846m in 2004/05 on the CLS. This enabled our network of suppliers to carry out 856,120 acts of civil legal assistance.

Managing a budget of that size requires vigorous financial scrutiny. The Commission, its non-executive Finance and General Purposes Committee, and the Executive Team regularly monitor all legal aid expenditure.

Senior managers receive detailed monthly expenditure reports on CLS spending and a Funding Committee, made up of LSC senior managers and DCA representatives, meets monthly to review financial reports. The Committee identifies key financial management issues and develops action plans to control expenditure.

In addition to funding work under contract, the budget which finances Controlled Work also includes a centrally managed fund for CLS development activities, CLS grants and the methods of delivery pilots.

Training support grants

Our training support grants scheme has been welcomed by the legal aid sector and

proved popular amongst those students and trainees committed to a career in legal aid. This enthusiasm has led the LSC to commit £10m over three years, enabling the training support grants scheme to operate on a rolling basis, with 100 grants being awarded annually.

Through the scheme, solicitors' firms and organisations can apply for a grant to support the training of high quality trainees who want to work in legal aid. The grant covers the costs of a training contract and, where applicable, tuition fees for the Legal Practice Course and the Core Professional Skills Course. This package represents a substantial commitment from the LSC and can be worth up to £30,000 for the trainee and the firm. Since its inception in 2002, the scheme has provided 387 grants to 338 solicitor and 49 not-for-profit organisations to support the training of new legal aid solicitors.

The LSC is working to develop closer relationships with the legal profession to ensure that we attract a new generation of lawyers into legal aid work and maintain a sustainable supplier base for the future. We worked with the College of Law and the Law Society to develop a Legal Practice Course with a specialist option (or 'elective') in legal aid work. Supporting training for new lawyers is also a key feature of the Preferred Supplier initiative.

Methods of delivery

We are constantly developing new and innovative methods of delivering high quality legal services to clients in need, particularly those who may experience problems in



accessing advice. Leading on from the success of the methods of delivery pilot that ran between 2000 and 2004, two separate schemes have been developed and extended:

- Telephone advice - the success of the pilot delivering a legal help and casework service by telephone and correspondence led to the launch of the Community Legal Service Direct advice lines in debt, education and welfare benefits in July 2004 (see page 19).
- Specialist Support - provision of expert guidance, support and training to organisations with the Specialist Quality Mark is now available in nine categories of law throughout England and Wales.

The housing possession court duty schemes continue in 12 courts, providing advice and representation to people facing housing possession proceedings regardless of their financial eligibility. This scheme has been funded where housing has been identified as a priority in LSC regional contracting strategies.

Alongside these schemes, we also piloted the General Support scheme, providing local advice, support and training to selected CLS suppliers. The pilot came to an end in March 2005 and although the evaluation showed that it was a welcome service to those who used it, it did not demonstrate sufficient value for money to justify continuing or extending it to other regions.

Black and minority ethnic supplier management

The LSC is committed to promoting diversity among the legal aid supplier base.

During 2004/05 we conducted an internal review of the civil bid round that took place in 2003 and analysed its impact on black and minority ethnic firms. Further details can be found in the Legal Services Research Centre's *Equal Opportunities Report*, available from its website at www.lsrc.org.uk. We are using this research and the feedback from our competitive tendering consultation (see page 42) to inform our black and minority ethnic supplier management.

Over Summer 2005 we are tendering for independent research into how we can help develop black and minority ethnic suppliers.

Contracting in the CLS

Since 2000, we have delivered the CLS through a General Civil Contract, letting contracts to quality assured solicitors and not-for-profit organisations. The General Civil Contract operates under two mechanisms:

- Controlled Work - this is the provision of general legal advice from contracted solicitors or legal advisers. This covers legal advice and assistance (referred to as Legal Help), Help at Court and Legal Representation in front of Mental Health Review Tribunals and the Immigration Appellate Authorities. Under Controlled Work, the contracting scheme for solicitors sets out the number of cases the supplier is authorised to start in a particular year. For not-for-profit organisations, contracts set out the number of hours of direct casework time the supplier is authorised to undertake in a particular year.

- Licensed Work - this covers all other civil legal representation, except for Very High Cost Cases, which are managed under separate contracts (see page 37). In contrast to Controlled Work contracts, Licensed Work contracts do not limit the amount of casework that can be done. Instead they require an application for funding to be made to the LSC for each individual case. We then decide whether the case will receive funding on the basis of the client's financial eligibility and the merits of the case.

Monitoring contract movement allows us to ensure that there is a sufficient supply of legal services throughout the country. It also allows us to target particular areas of law if gaps are identified.

Movements in the number of contracts held

At the end of March 2005, the total number of offices with General Civil Contracts (both solicitors and not-for-profit organisations) was 4,430 compared to 4,715 at the end of March 2004. This represents a reduction of 6%. As anticipated, the reduction was confined to the private sector, where the number of solicitors' offices with contracts fell from 4,301 as at March 2004 to 3,989 as at March 2005.

Since we introduced civil contracting in 2000, our supplier base has decreased in overall numbers and we expect this trend to continue. In contrast, the not-for-profit sector has continued to grow with 441 agencies holding contracts at the end of March 2005, compared with 414 in March 2004.



Education

Jo is a single mum with two children. Her son Ben was diagnosed with an autistic spectrum disorder last year. He requires intensive parenting and special help at school and Jo has left work to focus on her family's needs. It's important to Jo that Ben remains in a mainstream school where he has friends and is stretched. This means that she works closely with the school to ensure he gets the classroom help he needs. Support Worker Aline McCreedy and her team at Parent Partnership, which receives LSC funding,

have been invaluable in giving Jo support and advice, as well as supplying up-to-date legal information to help her in her discussions with Ben's school.

The Wirral Parent Partnership was the first of its kind in the North West. It holds a Quality Mark for General Help from the LSC. Its free services help parents of children with special needs to make applications to schools, deal with exclusion problems and get in touch with psychologists and doctors.

Table CLS1: Controlled Work categories held in contracts 2004/05

	March 2004 All	Solicitors	March 2005 NfPs	All	Change
Family	3,273	3,115	3	3,118	-5%
Actions against the police etc.	78	76	0	76	-3%
Clinical negligence	305	290	0	290	-5%
Community care	58	61	11	72	24%
Consumer	68	46	3	49	-28%
Debt	418	168	237	405	-3%
Education	58	50	11	61	5%
Employment	264	164	74	238	-10%
Housing	598	455	149	604	1%
Immigration	604	393	105	498	-18%
Mental health	317	303	6	309	-3%
Personal injury	1,197	1,052	0	1,052	-12%
Public law	34	46	0	46	35%
Welfare benefits	506	189	294	483	-5%
Total non-family	4,505	3,293	890	4,183	-7%
Total categories	7,778	6,408	893	7,301	-6%

Categories of Controlled Work

Contracts are granted within specific categories of law. This allows us to ensure quality and effectively match supply to need. Table CLS1 shows that the number of contracts held in specific categories of law has decreased by 6% overall, from 7,778 as at March 2004 to 7,301 as at March 2005.

Number of 'new matter starts'

A 'matter' refers to an instance of help given by a supplier to a client under the Legal Help scheme and does not cover representation at court.

Submissions from suppliers showed a considerable overall reduction in reported case starts during 2003/04 and this trend has continued in 2004/05. Table CLS2 shows the number of matters on which clients received Legal Help, including immigration

work. The total of 654,267 for Controlled Work in 2004/05 compares to 709,769 reported at the same stage the previous year, a decrease of 8%.

We have been monitoring the levels of matters started closely. It is one of our key targets set by the DCA as part of Public Service Agreement 6: to increase, year-on-year, the number of people who receive suitable assistance in priority areas of law involving fundamental rights or social exclusion.

Preliminary findings from the yet to be published *English and Welsh Civil and Social Justice Survey*, formerly the Legal Services Research Centre's *National Periodic Survey of Justiciable Problems*, show that there has been an increase in the proportion of cases where suitable assistance was obtained and that the incidence of problems has fallen in

all major areas of law since the last survey in 2001. This would suggest that the fall in reported activity is not a result of people having problems in accessing help. Reasons for the reduction might include improved economic conditions and the success of people accessing alternative sources of help.

In order to control costs in 2003/04, the LSC exercised tight controls on allocations of new matter starts. In 2004/05, controls were relaxed with the aim of increasing take-up of matter starts but some suppliers reported that they found this approach inconsistent and confusing and were reluctant to commit resources to developing publicly funded work. Introduction of the tailored fixed fee scheme means that suppliers now have more certainty of funding through assured volumes of work and levels of remuneration.

Table CLS2: Controlled Work matters started 2004/05

	2003/04 All	Solicitors	2004/05 NfPs	All	Change
Family	299,188	271,677	1,226	272,903	-9%
Actions against the police etc.	4,409	4,551	0	4,551	3%
Clinical negligence	4,041	3,649	0	3,649	-10%
Community care	3,092	3,069	357	3,426	11%
Consumer	4,985	3,295	596	3,891	-22%
Debt	54,851	14,322	43,931	58,253	6%
Education	2,886	2,236	410	2,646	-8%
Employment	10,275	5,250	4,237	9,487	-8%
Housing	80,260	51,286	31,907	83,193	4%
Immigration	120,440	70,195	24,041	94,236	-22%
Mental health	28,896	30,691	219	30,910	7%
Personal injury	4,794	3,134	3	3,137	-35%
Public law	1,601	1,618	14	1,632	2%
Welfare benefits	75,204	23,805	48,727	72,532	-4%
Miscellaneous	14,847	9,569	252	9,821	-34%
Total non-family	410,581	226,670	154,694	381,364	-7%
Total matters	709,769	498,347	155,920	654,267	-8%

Although the overall number of matters started has fallen, the fall is confined to solicitor contracts. In contrast, the not-for-profit sector is expanding, with 1,194,000 caseworker hours being contracted, an increase of 26% from last year's figure of 948,000. Not-for-profit agencies reported a total of 155,920 new matter starts, an increase of 17% on last year's figure of 132,986.

Whatever the reasons for the fall in matter starts, it is important to ensure that potential clients with priority needs have access to advice and assistance. We have tried to ensure that future allocations of work are based on historical reporting patterns and accurately reflect local demand. Our regional offices have worked hard to maintain and increase allocations of work where there was demand, in appropriate locations and categories of law, especially where the needs of socially excluded people were concerned.

The introduction of the tailored fixed fee scheme (see page 18) is expected to affect the volume of activity. We are monitoring its impact carefully.

The LSC is committed to increasing the number of acts of assistance delivered to clients. Our plans for delivering this and other key targets during 2005/06 are set out in our Corporate Plan 2005 - 2008.

CLS claims (non-immigration)

Suppliers make claims for payment for services provided to clients, which we assess and pay accordingly. The reduction in matters started is reflected in a commensurate decrease in non-immigration claims, with claim volumes falling by 6% in 2004/05.

In total, the actual value of completed non-immigration cases reported by solicitors in 2004/05 was £117.4m. This is a reduction of 4% on last year's figure of £122.9m. These figures do not include any money

we have recovered through the contract auditing process.

Approximately 2,070 solicitor offices volunteered for tailored fixed fees in 2004/05, with 272,522 matters covered by the scheme during the year. For those initially included the cost of cases was £66.8m. This figure excludes any of the adjustments allowed under the scheme, which will be calculated after the financial year-end.

The volume of claims for not-for-profit agencies increased from 114,592 in 2003/04 to 120,257 in 2004/05, in line with the increase in case volume. Whilst not-for-profit case volume went up, case duration decreased, suggesting greater efficiency in performance within this sector. This is something we aimed to achieve by providing skills training to not-for-profit organisations.

Table CLS3: Outcomes reported in Controlled Work cases 2004/05

	Matters reported with valid codes	% of all matters reported	% of matters proceeded under other CLS funding	% of matters otherwise not concluded, outcome not known or client ceased to give instructions	% of matters concluded with financial benefit for the client	% of matters concluded with non-financial benefit for the client	% of matters concluded with no reported benefit for the client	% success rate of concluded matters
Actions against the police etc.	4,173	100.0	15.4	38.2	4.5	11.7	30.2	35.0
Clinical negligence	3,622	100.0	48.6	24.6	0.9	1.9	23.9	10.6
Community care	3,099	99.8	15.1	28.2	5.6	29.9	21.2	62.6
Consumer	4,052	99.9	5.8	47.0	13.5	13.9	19.8	58.1
Debt	54,650	100.0	0.9	37.2	24.6	29.0	8.3	86.6
Education	2,776	100.0	10.3	39.2	0.6	27.1	22.9	54.7
Employment	9,699	100.0	1.5	38.4	33.3	7.5	19.3	67.9
Housing	80,979	100.0	9.5	37.0	4.2	39.8	9.5	82.3
Family	283,718	100.0	20.7	41.1	4.8	13.4	20.0	47.7
Mental health	31,777	100.0	2.6	8.1	0.1	31.9	57.2	35.9
Personal injury	4,070	100.0	4.2	40.0	25.9	3.4	26.6	52.4
Public law	1,348	100.0	21.9	25.4	2.6	20.2	30.0	43.2
Welfare benefits	71,948	100.0	0.7	28.7	42.1	11.1	17.5	75.3
Miscellaneous	10,773	99.9	6.4	35.9	2.0	22.2	33.6	41.8
Total non-immigration	566,684	100.0	12.8	36.3	11.7	19.5	19.6	61.5
Immigration asylum	103,940	98.3	2.3	33.1	–	22.4	42.2	34.7
Immigration non-asylum	36,369	98.4	1.3	43.0	–	33.3	22.4	59.8
Total immigration	140,309	98.3	2.0	35.7	–	25.2	37.1	40.5

Table CLS3 shows the outcomes of completed Controlled Work matters reported in 2004/05. There has been a significant improvement in the reporting of valid outcomes since last year as stricter validation was enforced. Less than half of non-immigration cases are now reporting no definite conclusion. This is a slight improvement from 2003/04, although the proportions proceeding to other forms of CLS funding increased slightly. Of the cases which did conclude, clients in 62% of non-immigration cases received a tangible benefit, up from 60% in 2003/04. However, immigration and asylum success rates fell from 46% to 40% in 2004/05.

Contract management in the CLS

The Quality Mark

The Quality Mark is the LSC's set of quality assurance standards for legal information, general advice and specialist legal services. It is an indication to members of the public that the supplier is committed to providing a high quality, well-managed service. The Specialist Quality Mark is the LSC's major external quality assurance standard and is a sign that the supplier is qualified to provide specialist legal advice in a certain category of law.

The auditing process

To ensure that the service our clients receive is of the highest quality and that we are making best use of resources, all our contracted suppliers are currently subject to a contract audit based on our assessment of the level of risk they represent. This is a process which ensures that all suppliers:

- comply with the Specialist Quality Mark
- meet their contractual obligations
- claim appropriately for the work they conduct.

The audit process allows us to identify poorly performing suppliers. We monitor performance through a number of indicators – an unusual performance profile will trigger a cost assessment audit. Using the results of this audit, we categorise the supplier into a performance category. If the percentage of the claim that we provisionally deduct on audit is between 0% and 10%, the supplier is rated as Category 1, between 10% and 20%, Category 2 and if the percentage of the claim is above 20%, the supplier is rated as Category 3. Those suppliers with Category 3 results are given six months to improve their performance and if a second audit shows no improvement, their contract is terminated.

In 2004/05, we completed on-site audits of 589 suppliers. This represents 16% of solicitors' offices with contracts. In addition, 71% of Category 3 suppliers were audited and the number of suppliers assessed as Category 3 reduced from 683 as at end March 2004 to 567 as at end March 2005. 66 firms had their contracts terminated due to failing to improve their cost assessment performance, or because they presented an unacceptable risk to either clients or the CLS Fund. Six of these firms have entered appeals against the decision. In total, 101 contracts in particular civil categories were terminated.

Contract review

A review process is available if a supplier disagrees with the LSC's decision to refuse or terminate a contract, or where they allege we have breached the contract.

There were 25 requests for contract review during 2004/05. All were referred to the Contract Review Body. This is a panel consisting of two senior representatives of the LSC and a nominee from either the Law Society (if it is a solicitor contract under review) or the Advice Services Alliance (if it is a case involving a not-for-profit agency). Of the 25 reviews the Contract Review Body heard in 2004/05, our original decision was upheld in 17 cases and overturned in eight cases.

Independent arbitration

An independent arbitration scheme, supported by the Chartered Institute of Arbitrators, is also available for organisations that have been through the review process.

A total of five organisations which had entered into arbitration were outstanding at the end of 2003/04. Of these, one did not proceed, one is still outstanding, one was decided in favour of the LSC and two in favour of the organisations. In 2004/05, four organisations entered into arbitration. Of these, three are outstanding and one has been found in favour of the organisation.

Auditing not-for-profit organisations

Like solicitors, not-for-profit suppliers are subject to audits in order to ensure value for money and improve efficiency.

Our approach to not-for-profit suppliers takes into account the sector's more holistic approach to clients' problems. Following consultation with not-for-profit agencies, we developed the following audit process during the year:

- not-for-profit suppliers are assessed on their performance against five key risk indicators
- auditing will commence with those agencies assessed as high risk
- if an agency performs 'out of profile' (as in solicitor audits), a random file audit will be triggered. Unlike solicitor file audits, the results of this audit will only inform the next stage of auditing activity and no monies will be removed from the system
- where the file audit shows a 25% failure rate in any one of the four key areas, a second, more intensive audit will take place. The results of this audit will highlight action to improve performance and in extreme cases, may result in the termination of a contract.

We instigated the new audit process on the first group of suppliers on 1 April 2005 and hope to have audited our 50 highest risk not-for-profit suppliers by the end of Summer 2005.

The review process is also available to not-for-profit organisations if they are unhappy with their audits.

CLS Licensed Work

Licensed Work includes all civil legal representation except for Help at Court and representation before Mental Health Review Tribunals and the Immigration Appellate Authorities. Solicitors' firms with a contract to carry out Controlled Work are also able to do Licensed Work, while a small number of firms have contracts enabling them to do Licensed Work only. There were 241 Licensed Work only contracts in place at the end of 2004/05, compared with 289 at the end of 2003/04.

Very High Cost Cases are managed under individual contracts, but for statistical and accounting purposes are included in the Licensed Work tables.

There is no limit on the number of representation matters that can be started. Instead, clients are required to submit individual applications for representation, usually including details of their means and the merits of their case. The LSC considers each application on its own merits.



Welfare benefits

Tom is 75 years old and lives with his wife, Ann, in a rural village. He has been suffering with health problems and decreased mobility. Ann has been taking care of him and they needed some assistance with their welfare benefits.

Ann called Age Concern as she wondered if they might be able to help. Their OAK Project (Older-people Advice Knowledge-base) has been set up specifically to help elderly people living in rural or semi-rural areas.

The OAK Project has an information and advice officer, funded by the LSC, who provides help on a wide range of social welfare issues to the rural area where Tom and Ann live. They have been helped to claim the benefits they are entitled to, making life for Tom and Ann a little easier.

The number of new applications for representation fell to 193,329 in 2004/05. This is the lowest number since the introduction of the Funding Code in April 2000. Applications in children and family proceedings were down by 5% and in non-family proceedings by 10%, but there were quite wide variations between individual case categories. This decline in representation numbers is largely a result of reforms to scope as part of the implementation of the Funding Code.

Applications in special public law Children Act proceedings, which do not have to satisfy means or merits tests, were up by 5%, and applications for Help with Mediation by 7%.

Other family categories were static or declined, with the biggest decline being a reduction of 14% for domestic violence proceedings.

As the criteria for funding domestic violence cases had not changed, this fall might be due in part to increased use of criminal remedies, whereby a person is arrested or charged with a criminal offence rather than a civil injunction being taken out against them.

On the non-family side the largest individual category, housing proceedings, was virtually unchanged, but amongst the other relatively high-volume categories there were reductions of 11% in clinical negligence applications, 29% in immigration, 4% in actions against the police, 22% in consumer cases and 8% in other public law proceedings.

There were minor reductions in the proportions of applications refused at first instance: 6.1% were refused on financial grounds compared with 6.3% in 2003/04 and 6.7% on merits grounds compared with 7.0%. The proportion of applications abandoned or withdrawn by the applicants also reduced, from 5.6% to 5.0%.

The proportion of applicants who were assessed as liable to pay a contribution towards the costs of their case reduced, from 17% in 2003/04 to 14% in 2004/05, but this was offset by a change in applicant behaviour. Only 13% of these applicants declined the offer of a contributory certificate (see page 36) in 2004/05, compared with 24% in 2003/04, so the proportion of all applicants accepting an offer was relatively unchanged, down from 12.9% in 2003/04 to 12.2% in 2004/05.

Table CLS4: Work started, completed and billed 2004/05

	Controlled Work ¹ New matters started	Completed matters reported	Funding applications received	Licensed Work ² Funding certificates granted	Final bills paid
Family	272,903	286,215	159,137	129,134	141,334
Non-family:					
Actions against the police etc.	4,551	4,381	1,584	918	1,126
Clinical negligence	3,649	3,687	7,286	5,672	7,210
Community care	3,426	3,241	708	620	550
Consumer	3,891	4,110	1,188	563	1,351
Debt	58,253	54,891	845	439	594
Education	2,646	2,870	725	532	515
Employment	9,487	9,835	148	88	113
Housing	83,193	81,635	14,406	11,834	13,959
Immigration	94,236	142,674	2,303	1,856	2,413
Mental health	30,910	33,200	220	175	194
Personal injury	3,137	4,125	617	308	6,133
Public law	1,632	1,472	1,649	975	1,104
Welfare benefits	72,532	72,588	121	98	80
Miscellaneous	9,821	10,913	2,392	1,308	3,357
Total non-family	381,364	429,622	34,192	25,386	38,699
Total	654,267	715,837	193,329	154,520	180,033
Total 2003/04 ³	719,057	772,255	205,138	160,997	193,582

¹ Based on cases reported as at 2 May 2005.

² Certificates are classified according to the first or main proceedings authorised.

³ These totals have been revised to include late returns and back-dated certificates issued after the year-end. Further information has also led to the reclassification of a few certificates to different categories.

Table CLS5: Certificates issued in family proceedings 2004/05¹

	Level of help authorised		Total certificates issued	Total 2003/04 ²
	Approved Family Help	Full Representation		
Special Children Act proceedings	0	26,822	26,822	25,390
Other public law Children Act proceedings	42	8,474	8,516	8,702
Private law Children Act proceedings	569	44,445	45,014	47,631
Domestic violence	30	18,702	18,732	20,983
Financial provision	15,616	8,480	24,096	25,174
Combined family proceedings ³	7	92	99	177
Other family proceedings	69	828	897	887
Help with Mediation	4,958	0	4,958	4,553
Total	21,291	107,843	129,134	133,497

1 Certificates are classified according to the first or main proceedings authorised.

2 These totals have been revised to include back-dated certificates issued after the year-end. Further information has also led to the reclassification of a few certificates previously reported under 'Financial provision' and 'Other family proceedings'.

3 May include two or more from: private law Children Act proceedings, domestic violence or financial provision.

Certificates issued in family proceedings

We recorded a small reduction in the number of certificates issued for family proceedings, from 134,829 in 2002/03 to 133,497 in 2003/04. This trend accelerated in 2004/05, with a reduction of 3.3% taking overall numbers back to the same level as in 2001/02. Within the total, non-means, non-merits-tested Special Children Act certificates for parents and children involved in care proceedings increased by 6%, but those for other parties and other public law proceedings reduced by 2%.

There was an increase in the use of Approved Family Help, with certificates for Help with Mediation up by 9% and General Family Help up by 10%. Overall, however, numbers of certificates issued for private law proceedings reduced. Domestic violence cases declined by 11%, private law Children Act cases (primarily contact and residence) declined by 5% and financial provision cases (primarily ancillary relief) declined by 4%.

In future, the use of General Family Help in children cases is expected to rise significantly as a result of the reforms arising out of the Funding Code consultation (see page 14).

Bills paid in family proceedings

We also noted last year that the increase in the number of family bills paid had been driven almost entirely by the one-off 'bring-forward' effect of transferring responsibility for assessing bills between £1,000 and £2,500 from the courts to the LSC. This effect worked its way out of the system in 2004/05 and the number of bills paid fell back to the levels of 2001/02 and 2002/03, a reduction of 4%. This was offset by an increase of 1% overall in the average cost per case, resulting in a reduction of 2% in the total gross amount paid.

Volumes of bills in individual categories showed a similar pattern to certificates, with increases in Special Children Act and Help with Mediation numbers but decreases elsewhere. None of the major categories showed a variation in average cost of more than 2% up or down, but costs were more volatile among some of the low-volume categories.

Outcomes reported in family work

Outcomes reported on final main bills for family proceedings showed a slight deterioration in 2004/05, with 57% reporting a substantive benefit for the client compared with 59% in 2003/04. There was no change in the proportion of favourable outcomes

reported where cases concluded without proceedings being issued, nor where a settlement was reached before the final hearing, although there were variations within individual categories of case. Where cases did go to a final hearing or on to an appeal, however, favourable outcomes were reported in 59% of cases compared with 63% in 2003/04.

Certificates issued in civil non-family work

The number of certificates issued for non-family proceedings again declined, down by 8% to 25,386. Over three-quarters of the decline was due to a reduction in the number of judicial review certificates issued: non-judicial review certificates fell by only 2%.

In immigration and asylum the continuing impact of the introduction of the statutory review procedure in April 2003 resulted in a 52% reduction in judicial review certificates, offset by a 141% increase to 713 in the number of certificates issued for statutory review. There was also a reduction of 26% in judicial review certificates for housing matters – non-judicial review housing certificates increased by 2% – and similar reductions across many of the smaller categories. The only category to show an increase was welfare

Table CLS6: Bills paid in family proceedings 2004/05¹

	Number	Bills paid	
		Amount £000	Average cost
Special Children Act proceedings	31,826	185,447	£5,827
Other public law Children Act proceedings	8,230	29,523	£3,587
Private law Children Act proceedings	47,308	125,579	£2,654
Domestic violence	21,808	49,880	£2,287
Financial provision	26,905	78,532	£2,919
Combined family proceedings ²	200	1,206	£6,031
Other family proceedings	1,197	5,268	£4,401
Help with Mediation	3,860	1,401	£363
Total	141,334	476,835	£3,374
Total 2003/04	146,438	488,880	£3,338

1 Certificates are classified according to the first or main proceedings authorised.

2 May include two or more from: private law Children Act proceedings, domestic violence and financial provision.

Table CLS7: Outcomes reported in family proceedings on final main bills submitted 2004/05¹

	No proceedings issued	Substantive benefit to client ²	Stages reached		Final hearing or appeal	Substantive benefit to client	Total number in sample ³	Substantive benefit to client
			Proceedings issued, no final hearing	Substantive benefit to client				
Special Children Act proceedings	516	15%	1,865	28%	20,718	41%	23,099	39%
Other public law Children Act proceedings	418	9%	1,073	32%	6,183	48%	7,674	43%
Private law Children Act proceedings	2,822	13%	13,951	49%	25,497	61%	42,270	54%
Domestic violence	1,554	12%	5,125	54%	12,894	69%	19,573	61%
Financial provision	3,686	52%	10,436	84%	10,454	83%	24,576	79%
Combined family proceedings ⁴	15	13%	58	60%	105	74%	178	65%
Other family proceedings	272	23%	389	60%	595	61%	1,256	52%
Help with Mediation	1,898	57%	967	89%	308	85%	3,173	69%
Total	11,181	33%	33,864	60%	76,754	59%	121,799	57%

1 Certificates are classified according to the first or main proceedings authorised.

2 Includes awards or recoveries of money and/or property and other orders or settlements in the client's favour.

3 In 5,474 cases the supplier reported that the final outcome was unknown, as the client had ceased to give instructions or was proceeding under other funding or as a litigant in person. In a further 100 cases the supplier reported that an explanation or apology had been secured for the client.

4 May include two or more from: private law Children Act proceedings, domestic violence or financial provision.

Table CLS8: Certificates issued in civil non-family proceedings 2004/05¹

	Level of help authorised			Total certificates issued	Total 2003/04 ²
	Investigative help	Full Representation	Support funding		
Actions against the police etc.	342	576	0	918	1,005
Clinical negligence	4,898	772	2	5,672	6,061
Community care	51	569	0	620	750
Consumer	133	430	0	563	724
Debt	43	396	0	439	476
Education	166	366	0	532	563
Employment	6	82	0	88	119
Housing	445	11,389	0	11,834	12,094
Immigration and nationality	5	1,851	0	1,856	2,253
Mental health	15	160	0	175	198
Personal injury	193	85	30	308	606
Public law	136	839	0	975	1,095
Welfare benefits	3	95	0	98	56
Miscellaneous	163	1,145	0	1,308	1,500
Total	6,599	18,755	32	25,386	27,500

1 Certificates are classified according to the first or main proceedings authorised.

2 These totals have been revised to include back-dated certificates issued after the year-end. Further information has also led to the reclassification of a few certificates to different categories.

benefits, where the vast majority of legal aid work is completed at the Legal Help level. 37 of the 42 additional welfare benefits certificates were for judicial review.

Strict application of the merits criteria in clinical negligence cases continued, with a 6% reduction in certificates issued and an increase from 81% to 86% in the proportion of certificates issued at the initial Investigative Help stage.

Bills paid in civil non-family work

Volumes of civil non-family bills continued to decline. This is an ongoing trend since the removal of personal injury and other damages cases from scope in April 2000. The number of main bills paid fell by 18%. On the surface

this was offset by an increase in average cost of 10%, so that total gross cost fell by 10% to just under £300m. However, this disguises very different trends in two types of case which are included in the table.

In personal injury cases in particular, and in all damages cases to some extent, it is common for a settlement to be reached between the parties which includes an agreement by the opponents to pay the legally-aided client's costs in full. Costs in these cases can be claimed at market rates rather than legal aid rates, and although they are technically 'paid' out of the CLS Fund, there is no net cost to the public because the costs are simultaneously recovered from the opponents. These 'set-off' cases made up

nearly a quarter of all non-family bills by volume and over a half of all payments by value. Average costs in such cases increased by 26%, from £14,072 to £17,712. The average cost of bills actually paid out of the Fund increased by only 1%, from £4,504 to £4,561.

This does not mean that there is a 300% differential between legal aid rates and market rates. The majority of these set-off claims are for personal injury or other damages cases which were removed from scope in April 2000. Such cases must now by definition have been running for over four years, and have therefore accumulated much higher costs than non-damages cases, which are typically concluded within 18 months to two years.

Table CLS9: Bills paid in civil non-family proceedings 2004/05¹

	Number	Bills paid Amount £000	Average cost
Actions against the police etc.	1,126	8,461	£7,514
Clinical negligence	7,210	83,386	£11,565
Community care	550	1,894	£3,444
Consumer	1,351	14,488	£10,724
Debt	594	3,427	£5,769
Education	515	2,570	£4,989
Employment	113	653	£5,775
Housing	13,959	38,558	£2,762
Immigration and nationality	2,413	6,387	£2,647
Mental health	194	879	£4,533
Personal injury	6,133	93,605	£15,263
Public law	1,104	7,105	£6,436
Welfare benefits	80	257	£3,208
Miscellaneous	3,357	37,325	£11,119
Total	38,699	298,994	£7,726
Total 2003/04	47,144	330,815	£7,017

¹ Certificates are classified according to the first or main proceedings authorised.

Outcomes reported in civil non-family work

The proportion of 'set-off' cases is declining slowly as the remaining pre-April 2000 damages cases are progressively concluded, falling from 26% in 2003/04 to 24% in 2004/05. This decline was also reflected in the outcomes reported on final main bills, where the proportion of cases with a substantive benefit to the client fell from 55% in 2003/04 to 52% in 2004/05. The reduction was manifested across all stages, with reported benefits in cases concluding without proceedings being issued down from 30% to 28%, in cases concluding without a final hearing from 70% to 67% and in cases concluding at trial from 67% to 61%.

To a large extent this change reflects the reducing number of personal injury cases in the mix, as this is an area where historically the proportion of cases resulting in a benefit

to the client was highest. If outcomes reported in personal injury cases are discounted, the reduction in performance overall was fractional, down just 0.6% from 49.6% to 49.0%.

The stricter application of the merits test in immigration cases began to show results, with an increase in cases reported as benefiting the client from 32% in 2003/04 to 36% in 2004/05. Housing cases did less well, with the proportion reporting substantive benefits reducing from 68% to 65%.

Results in clinical negligence cases were mixed. Most grants of representation in this category are for Investigative Help, to allow medical records, experts' reports and barristers' opinions to be obtained on the prospects of success. If the prognosis is poor, the certificate is discharged without proceedings being issued. The majority of

cases conclude at this stage. This is either because the prospects are poor or because a settlement has already been reached. The proportion of cases with substantive benefits for the client remained steady at 14%.

Where proceedings are issued, the majority of clinical negligence cases settle – the proportion of cases with costs met in full by the opponents increased from 22% to 24% this year. In addition, benefits reported where the case concluded without a hearing increased from 56% to 58%. However, there was a relatively sharp increase in the small number of cases pursued to a final hearing, and the proportion of these with beneficial outcomes fell equally sharply, from 74% in 2003/04 to 51% in 2004/05. As a result, the overall benefit rate in cases where proceedings were issued reduced slightly, from 57% to 56%, and the rate across all cases was unchanged at 31%.

Table CLS10: Outcomes reported in civil non-family proceedings on final main bills submitted 2004/05¹

	No proceedings issued	Substantive benefit to client ²	Stages reached Proceedings issued, no final hearing	Substantive benefit to client	Final hearing or appeal	Substantive benefit to client	Total number in sample ³	Substantive benefit to client
Actions against the police etc.	487	20%	322	62%	195	45%	1,004	38%
Clinical negligence	3,643	14%	1,981	58%	593	51%	6,217	31%
Community care	311	47%	132	68%	32	59%	475	54%
Consumer	511	17%	438	60%	424	47%	1,373	40%
Debt	96	18%	191	67%	248	56%	535	53%
Education	284	27%	116	42%	40	48%	440	33%
Employment	18	22%	19	37%	62	44%	99	38%
Housing	3,001	40%	4,253	77%	4,984	70%	12,238	65%
Immigration and nationality	377	35%	1,382	34%	342	43%	2,101	36%
Mental health	94	17%	44	27%	35	46%	173	25%
Personal injury	1,873	42%	2,617	83%	1,466	62%	5,956	65%
Public law	449	28%	292	46%	221	33%	962	35%
Welfare benefits	34	56%	16	56%	12	42%	62	53%
Miscellaneous	1,087	21%	1,081	62%	1,099	52%	3,267	45%
Total	12,265	28%	12,884	67%	9,753	61%	34,902	52%

1 Certificates are classified according to the first or main proceedings authorised.

2 Includes awards or recoveries of money and/or property and other orders or settlements in the client's favour.

3 In 1,589 cases the supplier reported that the final outcome was unknown, as the client had ceased to give instructions or was proceeding under other funding or as a litigant in person. In a further 58 cases the supplier reported that an explanation or apology had been secured for the client.

There were some improvements in the outcomes of claims against the police. This was an area of concern highlighted in the Funding Code consultation. The proportion of police cases where proceedings were issued that went to a final hearing was 38% in 2004/05, down from 40% in 2003/04. The success rate of cases where proceedings were issued rose from 53% to 58% and success at final hearings rose from 39% to 45%. The success rate for police certificates overall rose from 36% to 38%. This is encouraging in the light of our concern to focus funding on the more meritorious cases.

Funding appeals and reviews

Under Licensed Work contracts, the client must make an application for funding direct to the LSC. We then assess the merits of the case and the ability of the client to pay for any legal provision.

Where we refuse public funding, clients have the right to appeal against our decision. During 2004/05 there were 7,261 appeals in total. Of these, 3,262 were granted after a review by the relevant regional office where the client or supplier provided the LSC with more information about the case. Of the remaining 3,999 appeals, 3,867 proceeded to a full Funding Review Committee hearing and were assessed by independent solicitors and barristers. Of these, 1,165 were granted.

Exceptional funding

The LSC also has an exceptional funding system, whereby clients can apply for funding for cases that are outside the normal scope of CLS funding. This includes cases such as business disputes, inquests and tribunal hearings.

Applications for exceptional funding are initially made to our Special Cases Unit and if approved, passed to the Department for Constitutional Affairs where Ministers make the final decision on each case. Since 2001, inquests concerning death in police custody or during the course of police arrest, search, pursuit or shooting can be funded by the LSC without reference to Ministers.

The outcomes of exceptional funding applications during 2004/05 are shown in table CLS11.

CLS Development Fund

LSC regional offices manage the CLS Development Fund, which is a set amount within the non-immigration Legal Help budget. Established in 2004, it enables our regional offices to develop services that help meet local or regional needs for legal advice and information in priority areas of law.

Table CLS11: Exceptional funding applications determined 2004/05

	Refusal by LSC	Awaiting DCA decision	Granted by DCA/LSC	Refusal by DCA	Total
Inquest	67	3	56	0	126
In scope inquest	17	1 ¹	57	0	75
Enquiries/tribunals	14	6	13	0	33
Personal injury	7	0	0	0	7
Director disqualification	0	0	0	0	0
Other	47	1	15	4	67
Total	152	11	141	4	308

1 Cases out of financial scope where the LSC is requesting that the DCA waive eligibility limits.

We deliver services through the CLS partnership network according to needs identified by Regional Legal Services Committees. The CLS Development Fund may be used to:

- maintain existing services
- expand or enhance existing services or projects
- set up new services.

A total of £2m was available for the CLS Development Fund in 2004/05. The CLS Development Fund is intended to be an on-going funding stream. However, this will be dependent on future pressures on the overall CLS Fund. Achieving increased numbers of acts of assistance is a priority for 2005/06.

Partnership Initiative Budget

We continued to fund around 130 projects through the Partnership Initiative Budget during 2004/05. We conducted a review of 22 of these projects which covered:

- services in primary health care settings
- services for people with mental health problems
- advice provision by video-link
- capacity building in the community and voluntary sector.

We published a report evaluating these projects during June 2005. This is available on the LSC website www.legalservices.gov.uk.

CLS expenditure

Net CLS payments in 2004/05

Total payments from the CLS Fund during 2004/05 were £846m. This enabled our suppliers to carry out more than 850,000 acts of legal assistance.

Of this amount, £490m represents Licensed Work and Very High Cost Cases, and £356m was spent on Controlled Work. The expenditure on Controlled Work included £24m on grants, projects and other non-contract work. Of the Controlled Work payments, £171m was spent on immigration matters and £185m on other matters.

Expenditure was less than initially forecast in the Spending Review 2004 principally due to a significant reduction in asylum spend: in 2004/05 we spent £171m compared to the forecast of £249m. This was as a result of the significant reduction in volume of asylum applications (see page 23) and the new immigration specification introduced by the LSC in April 2004 (see page 34 of the LSC Annual Report 2003/04).

There was also an underspend of £7m against the original forecast on other civil work due to a reduced number of Legal Help matter starts (see page 26). This fed through in part to the Licensed Work budget, as Legal Help is often the gateway to full representation. Numbers of new certificates issued were lower than forecast, resulting in lower than forecast expenditure on payments

on account in new cases. This accounted for between a fifth and a quarter of the underspend of £56m on Licensed Work, nearly £14m.

The balance of just over £40m arose because the proportion of cases being settled at no cost to the CLS Fund remained virtually unchanged at 24%. We had expected this percentage to continue to fall as older damages cases were cleared from the system. As a result we were able to offset claims of nearly £40m against costs agreed to be paid by opponents.

Resource management in the CLS

Contributions determined

Before civil legal aid is granted, applicants' financial means are tested. If they have sufficient money, they may be expected to contribute to the cost of their case. This is one way of ensuring that the limited resources of the CLS Fund are targeted effectively. In 2004/05, 15.5% of all certificates issued required the applicant to pay a contribution. This is a continuation of the pattern established over the last two years.

Costs and debt recovery

The LSC works to improve resource management within the CLS. During 2004/05 we recovered £7.2m from suppliers over-claiming in Legal Help cases, compared to £6.6m in 2003/04. Although there was a moderate increase in the amount recovered, we expect this figure to decline as a result of the improved performance of the supplier base as many more are achieving the highest audit rating.

The LSC recovered a total of £28.5m in outstanding debt during 2004/05. This money can now be reinvested in priority areas. We recovered this debt from suppliers who had been over-claiming, clients who were required to pay a contribution to their legal aid fees and third parties against whom funded actions were successful. This figure is similar to 2003/04 but exceeds our prediction of £26m as we continue to improve our debt prevention measures. We wrote off £21.6m of debt this year, compared to £18.9m in 2003/04. As clients are often in difficult financial circumstances and some debtors abscond, write off is often the only practical solution with the resource available for this activity.

Audit and cost recovery activities have been used to help control growth in average case costs for Legal Help, and will continue to be used in immigration and other non-tailored fixed fee costed Legal Help matters. For matters covered by the tailored fixed fee scheme (see page 18), the value paid is determined by the category rate for that supplier. This means that there will be no need to undertake recovery activity, although we will continue to monitor the cost of matters, especially for exceptional cases.

Special investigations

An estimated £1.5m was saved or recouped as a result of investigations into suppliers. In addition, contracts with an annual value of £6.5m were terminated. As a result of special investigations into suppliers suspected of abusing the legal aid system, we referred five suppliers to the Law Society's Consumer Complaints Service, and referred one supplier to the police. During the year one supplier was successfully prosecuted.

We saved an estimated £2.1m as a result of investigations into applicants suspected of abusing the legal aid system. We concluded full investigations into 213 civil cases, and our accountants also enquired into a further 279 civil cases. In 90% of these cases, investigations led to either the refusal or withdrawal of funding, or an increase in the financial contributions payable by the client.

Very High Cost Cases (VHCCs)

The LSC manages civil cases where the costs are likely to exceed £25,000 under individual case contracts.

During 2004/05 we contracted 763 new cases, and completed 601 cases. This brings the number of ongoing cases to 1,783 at 31 March 2005, compared with 1,621 at 31 March 2004.

In 2004/05 we authorised payment of £51m for VHCCs against a projected spend of £69m. £49m was spent on individual cases, and £2m on multi-party actions.

In the past high cost cases have had a tendency to take between five to ten years to litigate. Some cases are continuing which began being funded under the old Legal Aid Act 1988, where costs have reached between £25,000 and £100,000. During 2004/05 we recovered £12m in costs on individual cases and spent £6m on multi-party actions under the Legal Aid Act 1988.

Historically, major multi-party actions have been extremely expensive and difficult to win and since January 2005, all major multi-party actions must pass set affordability criteria in addition to the standard Funding Code tests examining merit and cost. Affordability criteria reflect the level of public interest and case priority as set by the Secretary of State's directions.

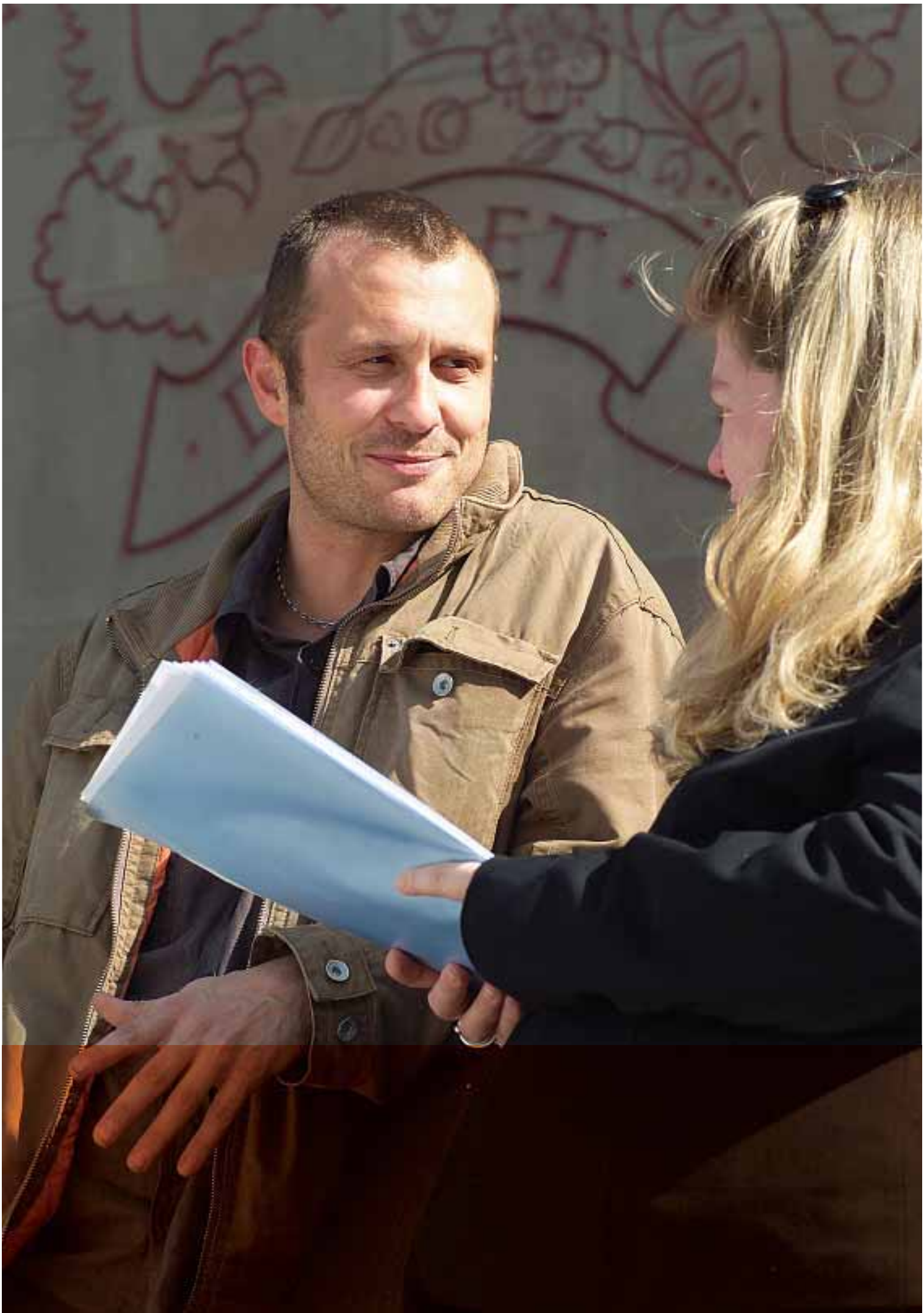
The Commission aims to achieve savings in spending on VHCCs and multi-party actions. In 2004/05 we achieved our target of saving £5m in cash spend, a saving of 5% on the historic spend rate on VHCCs.



Using technology to reduce offending through advice

Deerbolt Young Offenders Institution is a closed institution for men aged between 18 and 21. The prison, along with Acklington, Castington and Holme House, is involved in the ROTA (Reducing Offending Through Advice) Project, which is jointly funded by the LSC, the Prison Service, Citizens Advice and the Treasury. It provides video links between the four prisons and three local Citizens Advice branches so that prisoners can receive 'face-to-face' advice via video-link.

Diane Dickinson is one of the prison's Advice and Development Workers. She has advised 120 prisoners in the past four months, often using the ROTA service. Prisoners can get help for housing and money problems and can also be linked to the LSC's FAInS (Family Advice and Information Service) advice providers to receive assistance with family problems. This helps ensure that they are able to move forward with their lives without re-offending.



Criminal Defence Service

The Criminal Defence Service (CDS) was established in April 2001 as part of the implementation of the Access to Justice Act 1999. The CDS exists to:

- provide legal advice and representation to individuals under investigation or charged with criminal offences
- facilitate the fair, efficient and effective operation of the Criminal Justice System and influence positive improvements in it
- help individuals address the causes of their offending behaviour and reduce re-offending through effective links with other Criminal Justice System initiatives and the Community Legal Service.

CDS policy and planning

The LSC is effectively the sole funder of legal defence services for people accused of crimes. Everyone, regardless of his or her financial means, is currently entitled to be represented by a lawyer whenever they are required to attend a police station or (subject to a merits test) have to appear in a criminal court.

For this reason, it is often difficult to anticipate or influence the amount that we are required to spend on the CDS and developing financial controls has been a particular focus in the last year. The LSC has done a lot of work to control and reduce costs during 2004/05 and now has financial responsibility for all publicly funded criminal remuneration. We will be doing more work, particularly in regard to the Crown Court, to further reduce costs and

focus on improving our management of information and control mechanisms.

We are also looking at how we deal with the work that takes place in police stations and magistrates' courts. Working closely with Her Majesty's Court Service we are developing a project that will see the re-introduction of a means test in the magistrates' court (see page 41). In addition, the CDS Direct pilot will enable us to improve value for money for work done in police stations (see page 42).

We are working with partners in the Criminal Justice System to influence the decisions that can impact on our own costs and efficiency and affect outcomes for clients. We are also working with other agencies and partnerships to address the factors associated with crime and disorder.

Specific targets 2004/05 for the Criminal Defence Service (as published in the Corporate Plan)	Status	Progress in 2004/05
Reduce expenditure on police station advice and assistance and court duty solicitor provision by £20m through the successful implementation of CDS scope and contract changes	Partially achieved	We were successful in reducing a large proportion of the expenditure as planned during 2004/05. The full reduction of around £20m is expected to be achieved during 2005/06 once the scope and contract changes package is fully implemented (see page 14). We are monitoring this monthly and where necessary taking action to ensure the delivery of these savings.
Obtain savings of £70m compared with current trends from the comprehensive introduction of Very High Cost Case Contracts	Not achieved	Due to discussions involving the Bar and the DCA, a substantial change was made to the scope of contracts within the scheme. This meant that during the year we achieved savings of around £46m.
Maintain national coverage of duty solicitor schemes at 100%	Achieved	We maintained 100% national coverage of duty solicitor schemes throughout 2004/05.

“The CDS is fundamental to the fairness and efficiency of the Criminal Justice System by providing advice and representation to those under investigation or facing criminal charges.”

Key milestones for the Criminal Defence Service (as published in the Corporate Plan)	Status	Progress in 2004/05
Complete the implementation of the scope cuts package, which will reduce funding for specific offences or forms of assistance, by May 2004	Achieved	We implemented the scope changes through amendments to the General Criminal Contract in May 2004. Savings as a result of these changes, estimated at £20m, are monitored on a monthly basis and the total savings are currently on target to be met.
Develop CDS Direct as an alternative delivery vehicle for telephone police station advice and commence a pilot in 2004	Changed	Following a consultation paper in May 2004, we issued a further consultation paper in October 2004 with proposed changes to the pilot. A six-month pilot scheme will be launched in October 2005.
Pilot Preferred Supplier arrangements with selected legal aid providers from June 2004 and roll out to all providers who can meet the criteria from April 2005	Changed	We started the Preferred Supplier pilot in June 2004. We have decided to defer a full roll out until 2006, pending completion of an evaluation and formal consultation on the proposals.
Develop a system of standard fees for police station advice for implementation in April 2005	Changed	To allow time for further research into cost drivers and how the standard fee could most effectively control these, we deferred issuing a consultation paper on police station standard fees until mid 2005.
Introduce competitive tendering for crime contracts in London by July 2005	Changed	We launched the consultation paper for London competitive tendering in January 2005. The timescale for consultation and the complexity of the issues mean that we expect to have new contracts in place by the second quarter of 2006.
Revise the merits test for representation orders and be ready to take on responsibility for determining applications for grant in the first half of 2005/06	Changed	Due to delays in necessary legislation going through Parliament, we anticipate that the revised procedures for determining applications for grant, including the re-introduction of means testing, will be brought into effect no earlier than 2006/07.
Consult on models for providing access to CDS services in rural areas in 2005/06	On track	We will consult on alternative models informed by the outcome of the Fundamental Legal Aid Review, which looked at alternative methods of purchasing services.

Key milestones for co-operation across departments and agencies (as published in the Corporate Plan)	Status	Progress in 2004/05
Complete, by October 2004, a project to identify options for re-focusing some CDS services to reduce offending and re-offending	Achieved	We agreed a Criminal Justice System strategy identifying options in October 2004. We now have a Criminal Justice System initiatives team in place, which has begun work to develop a diversion strategy that will link to our strategy for the CLS.
Implement the fees element of Effective Trial Management Pilots as agreed with the implementation team	Changed	We decided not to proceed with proposals to change fee structures to support the Effective Trial Management Pilots following consultation and feedback from the professional bodies. With stakeholders, we are now investigating the feasibility of piloting fee changes to provide incentives for early case preparation to support the roll out of the Criminal Case Management Programme.

Criminal Defence Service Bill

In December 2004 the Criminal Defence Service Bill was introduced in Parliament but did not complete its passage before the May 2005 General Election. The Bill was re-introduced in May 2005. It set out two key proposals:

- transferring the granting of criminal legal aid to the LSC from the courts
- introducing a means test for criminal legal aid.

The transfer of grant from the courts to the LSC is aimed at improving our control and forecasting of criminal legal aid expenditure.

The re-introduction of a means test in the magistrates' court would allow for those who can pay for their defence to do so. If they are found innocent, the cost would be refunded.

A joint project team with the Court Service will be established to take the changes forward. It is anticipated that the means tests will be in operation no earlier than April 2006.

Criminal Justice System Strategy for the Criminal Defence Service

In order to fulfil the purpose of the CDS, it is essential that the Commission plays a key role in the Criminal Justice System. To achieve this, we are working towards:

- engaging the defence
- building partnerships
- developing our ways of working.

The Commission controls the fund for defence spending, and as such, we recognise that it is essential that we form effective links and work closely with other agencies at every level in the Criminal Justice System. We are improving partnership opportunities with other key stakeholders. For example, the LSC's Chief Executive has been a member of the National Criminal Justice Board since 2003 and the Commission is already represented on a number of local criminal justice boards.

Crown Court remuneration

In 2003 the Commission took over financial responsibility for criminal remuneration from the DCA and from April 2004 we assumed lead responsibility for policy development for all Crown Court work. The aim of the change was to develop a holistic overview of all criminal work in order to underpin quality standards and provide better control over expenditure.

During this period of change there have been ongoing developments within the Crown Court remuneration structure. In August 2004, changes were made to both the graduated fee scheme and the Very High Cost Criminal Cases regime following negotiations between the LSC, the Bar, the DCA and the Crown Prosecution Service (see page 47).

In association with the DCA we are currently negotiating with the Bar on the remuneration of Crown Court cases where a guilty plea is entered or which otherwise ends without a trial. We are also continuing to investigate ways of controlling solicitors' costs in Crown Court cases and working with the Office of Criminal Justice Reform on the Effective Trial Management Programme.

CDS service design

CDS Direct

Why introduce this pilot?

The CDS Direct project has been developed as part of our ongoing work to improve value for money by changing the method by which calls from the Duty Solicitor Call Centre are deployed to Criminal Defence Service suppliers.

We issued a consultation paper to the professional bodies and all CDS suppliers on 4 May 2004 with responses required by 16 June 2004. Involving suppliers through consultation helps us to refine our proposals. Having received many helpful and detailed responses we issued a revised consultation paper requesting responses by 30 November 2004. We will launch a pilot scheme, which will last for at least six months, in October 2005.

How will the pilot work?

CDS Direct will be available for cases where it is not cost-effective or necessary to offer face-to-face advice and where an interview or identification is not planned. These include driving with excess alcohol and arrests for a breach of a warrant.

In addition, for those cases that can be completed in the magistrates' court, CDS Direct will be involved where the time of interview or identification is not known when the initial request for legal advice is made.

Advisers who hold the Law Society's Police Station Qualification and have recent experience of police station work will operate the phones.

Benefits of CDS Direct

We believe that these proposals have the potential to improve service to detained clients, the police and CDS suppliers as well as improving value for money. This directly contributes to two primary CDS objectives:

- to ensure effective control over CDS expenditure, and progressively improve the value for money of the criminal defence services it provides and purchases
- to ensure that the CDS contributes fully to achieving the overall Criminal Justice System strategic plan, including working with other agencies.

Competitive tendering for criminal work in London

On 27 January 2005 we launched a consultation paper entitled *Improving Value for Money for Publicly Funded Criminal Defence Services in London*, outlining proposals for the introduction of managed competition in London. The consultation concluded on 27 May 2005 and responses are under evaluation.

Why introduce the scheme?

We believe that value for money is about improving quality for the client and reducing costs for the taxpayer. This is what we aim to achieve through the introduction of managed competition.

The criminal legal aid budget has reached £1.1bn. This has risen from £800m in 2000/01. There are concerns that, within a constrained legal aid budget, overall civil legal aid expenditure will have to be cut if the cost of criminal legal aid is not reduced.

We have proposed that managed competition for criminal lower work (work that takes place mainly in and around the police station and



at the magistrates' court) is introduced first in London. London accounts for just over 20% of crime lower expenditure. We believe it is the area of most significant oversupply and where the most significant savings could be realised.

How would the scheme work?

The consultation paper proposes that London is divided into a series of bid zones. Within each zone there would be a two-stage bid process, with firms being assessed first on quality and then on price. Only those that passed the quality threshold would be able to bid on price and only those that bid a competitive price are likely to win a contract. Those that did not win a contract would not be able to continue with publicly funded criminal work in that bid zone.

During the year we developed new quality measures (see page 16) that focus on the work done and outcomes achieved for the client. We are also looking to use peer review as the final arbiter of quality.

Under the new contract we would continue to monitor the work done and outcomes achieved for the client.

Benefits of managed competition

In addition to the benefits for the client and the taxpayer, managed competition offers suppliers:

- increased opportunities for growth for efficient firms
- opportunities to benefit financially from innovation and efficiency savings
- simplified contract and reporting mechanisms
- an end to the need for a justification of costs in the majority of cases
- certainty of bills, with less risk of costs being reduced.

CDS service delivery

Contracting in the CDS

The Commission funds the CDS in a similar way to the CLS, with suppliers being awarded the General Criminal Contract. We monitor adequacy of supply in criminal defence services closely. At the end of this year 2,643 solicitors' offices operated under a CDS contract, a decrease of 4% on 2003/04. The fall represents the number of firms that did not sign the new contract that came into effect on 1 July 2004.

There is a national network of CDS suppliers, with coverage of all relevant police stations and magistrates' courts throughout England and Wales. During 2004/05 we maintained national coverage of duty solicitor schemes at 100%.

Tables CDS1 and CDS2 set out the work claimed in 2004/05 under the General Criminal Contract.

Table CDS1: Services provided to suspects who had not yet been charged 2004/05

Type of service	Number of cases	Total claimed £000	Average claim per case
Police station: attendance	575,814	152,461	£265
Police station: attendance on immigration issues ¹	3,306	535	£162
Police station: telephone advice only	150,415	6,197	£41
Police station: warrants of further detention	2,116	978	£462
Police station: standby (claims) ²	34,630	10,528	£304
Free standing advice and assistance	14,685	1,514	£103
Total amount claimed	–	172,213	–

¹ May also include advice and assistance on criminal matters.

² Standby claims are made on a monthly basis.

Table CDS2: Services provided to defendants who had been charged 2004/05

Type of service	Number of cases	Total claimed £000	Average claim per case
Representation where a Representation Order had been granted by the court:			
Lower standard fees	459,233	157,938	£344
Higher standard fees	82,566	74,227	£899
Non-standard fees and exempt cases	30,065	56,052	£1,864
Second claims for deferred sentencing ¹	1,609	418	£260
Total Representation Orders	573,473	288,634	£503
Advice assistance and advocacy where no Representation Order had been granted:			
Post charge police station advice and assistance ²	19,827	1,317	£66
Preparation: Representation Order refused ³	5,066	289	£57
Court Duty Solicitor (sessions)	85,740	19,273	£225
Early first or administrative hearings ⁴	4,929	575	£117
Advocacy assistance ⁴	6,241	1,906	£305
Free standing advice and assistance ⁴	9,822	1,065	£108
Prison law	15,698	6,731	£429
Appeals, reviews and other courts	1,984	1,673	£843
Civil assistance on criminal matters ⁵	359	68	£190
Firms claiming for File Review payments ⁶	1,569	3,458	£2,204 ⁷
Total advice, assistance and advocacy	–	36,354	–
Total amount claimed	–	324,988	–

1 A separate fee can be claimed where sentencing takes place at a further hearing subsequent to conviction.

2 Advice and assistance given to the client after they have been charged and not covered by the standard fee for representation.

3 Preparatory work on cases where the client's application for legal aid proved unsuccessful.

4 Removed from scope in May 2004.

5 Public law work arising from criminal work.

6 Under the terms of the General Criminal Contract, supervisors are required to review at least two files per month for each fee earner.
A fixed fee may be claimed for each review carried out.

7 Average total claims per firm.

The Public Defender Service (PDS)

In addition to traditional suppliers, CDS services are also delivered through the PDS. We created this service in 2001 to deliver quality criminal defence services through directly employed solicitors, barristers and accredited representatives who provide independent advice and representation to clients. They are available 24-hours a day, seven days a week to give advice to people in custody and represent clients in magistrates', Crown and higher courts where necessary.

Over the last four years, we have expanded the service to eight offices across England and Wales. More than 4,500 criminal cases were dealt with in 2004/05. Building on previous experience, the PDS has developed its understanding of quality defence provision and was recently rewarded with exceptional client survey results. More than 97% of clients surveyed expressed satisfaction with the service they received, whilst 98% would recommend the PDS to a friend. This success was mirrored in the most recent PDS audit performance, with every single office being awarded a Category 1 cost compliance rating.

The PDS was originally set up as a four-year pilot project and has been undergoing continuous independent research and assessment since its inception. The pilot phase concludes during 2005 and will be followed by a full evaluation to determine the future. We expect these results to be published in Autumn 2005.

Figures for PDS matters started and outstanding by office during 2004/05 are shown in table CDS3.

We will publish further information on the work of the Public Defender Service during 2004/05 in a dedicated annual report in September 2005. All previous PDS reports are available on our website at www.legalservices.gov.uk.

Ensuring the quality of services

One of our key objectives for the CDS is to enhance the quality of the criminal defence services that our suppliers provide. There are currently a number of quality control mechanisms under development including

the Preferred Supplier pilot, independent peer review, file assessment and quality profiling. More information on these schemes can be found on pages 15–17.

Duty solicitor accreditation schemes

Anyone who wishes to be a duty solicitor at a police station or magistrates' court is required to complete two Criminal Litigation Accreditation Schemes, ensuring that service users receive a high standard of advice. We are currently working with the Law Society to develop a second stage of accreditation that could help more experienced suppliers to be awarded the Specialist Quality Mark.

We continue to contribute to the accreditation costs of solicitors and police station representatives, as it is a priority that we only work with the best suppliers. In 2004/05 we contributed £355,000 towards individuals' accreditation costs. This represents a 4% increase on last year and reflects an increase in the number of duty-qualified solicitors.

Table CDS3: PDS matters started and outstanding by office

Office	Matters started				Live matters as at 31/3/05	% from existing clients in 2004/05 ¹
	2001/02	2002/03	2003/04	2004/05		
Liverpool	482	781	814	719	166	53
Middlesbrough	327	715	612	582	133	59
Swansea	626	749	543	508	85	53
Birmingham	275	512	419	427	80	31
Cheltenham	–	668	683	1,052	222	49
Pontypridd	–	384	491	421	94	44
Chester	–	12	274	385	74	39
Darlington	–	28	455	540	110	25
PDS total	1,710	3,849	4,291	4,634	964	46

¹ Percentage of new matters started for existing clients of PDS or fee-earner or referred by existing clients.



The auditing process

CDS auditing is conducted on the same basis as CLS auditing (see page 28), with sample file selections being used to categorise suppliers into Category 1, 2 or 3. Those rated at Category 3 can only continue to work under the General Criminal Contract where they agree to be audited again in six months. If they do not show improvement six months later their contract is terminated.

In 2004/05, we were successful in completing audits on 87% of Category 3 suppliers in the CDS. As a result of these auditing activities, the number of firms holding a Category 3 in criminal work declined from 117 in 2003/04 to 34 in 2004/05. A total of 35 contracts were terminated after a second unsatisfactory audit. Of these, 14 are currently in the appeal process.

As with the CLS, we are developing a Preferred Supplier approach (see page 15) whereby we offer a simplified finance system and a less bureaucratic approach to auditing in return for top quality criminal defence services. We are currently evaluating the Preferred Supplier pilot and will open the proposals for consultation later in 2005.

CDS funding

The Commission aims to help as many people as possible but our resources are limited and have to be focused on priority cases. To achieve this we introduced a number of changes to the scope of the Criminal Defence Service on 17 May 2004 through amendments to the General Criminal Contract.

These changes were announced on 2 February 2004 and resulted from a consultation paper, *Value for Money in the Criminal Defence Service*, published by the Department for Constitutional Affairs in June 2003.

The following changes were implemented:

- the provision of free police station advice was restricted in certain cases to telephone advice only (with limited exceptions)
- post-charge advice and assistance in criminal proceedings was abolished (except that provided by the court duty solicitor)
- advocacy assistance for early hearings was abolished
- the scope of the court duty solicitor scheme was restricted to remove access for clients who are not in custody and who are charged with non-imprisonable offences.

In addition the LSC implemented other changes from 1 February 2004:

- the police station fixed fee for telephone calls for all suppliers (both duty and own solicitors) was introduced
- availability of police station duty solicitor rates was restricted to the end of the initial continuous period of custody.

An annual saving of £20m to the Criminal Defence Service was anticipated as a result of all of the above changes. The realisation of these savings is being monitored on a monthly basis and the anticipated levels of savings are currently being achieved.

CDS expenditure

Net CDS expenditure in 2004/05

We forecast net CDS payments in 2004/05 would be £1.207bn. Actual spend was £1.192bn. This enabled our suppliers to carry out more than 1.5 million acts of legal assistance.

Demand on the CDS budget is affected by influences outside of our control, such as changes in legislation, rising levels of arrest or an increase in the number of offences brought to justice. CDS expenditure is therefore difficult to anticipate or influence.

Our drive to play a greater role in strategy and policy making within the Criminal Justice System is described on page 39.

Recovery of defence costs

CDS clients are sometimes required to pay a contribution towards their legal aid costs. This is dependent on the defendant's financial means and ability to pay. The LSC Special Investigations Unit liaises closely with the courts to determine whether a Recovery of Defence Costs Order should be made in a particular case.

During 2004/05 the value of Recovery of Defence Costs Orders was £1.08m, with £504,100 of this figure being a direct result of our special investigations. We collected £584,800 of this and wrote off £63,800. We are pursuing the remainder. In 2003/04 we collected £674,000 and wrote off £94,900.

Right to representation orders

The future of defendants' right to a representation order is currently under consideration. The availability of suitable representation for defendants in criminal

trials is a key pillar of the Criminal Justice System and an important safeguard for defendants' rights. However, it also remains a cornerstone of our policy that those who can afford to pay for their defence should do so if convicted.

The Criminal Defence Service Bill, which is currently proceeding through Parliament, will re-introduce means testing in the determination of a Grant of Representation in a magistrates' court. Subject to the Bill becoming law, it is anticipated that means assessment in criminal legal aid will be re-introduced during 2006.

Very High Cost Criminal Cases (VHCCCs)

As part of a continuing focus on controlling rising criminal defence expenditure, we introduced individual case contracts for all VHCCCs during September 2003.

During 2004, the scheme was reviewed following discussions between the DCA, the Bar Council and the Commission. As a result of the review, the definition of a VHCCC was

changed to cover only those cases where the trial is expected to exceed 41 days. The Crime Graduated Fee scheme, previously confined to cases less than 25 days, is now applicable in any case where the trial lasts 26 to 40 days.

The change in this definition led to a significant reduction in case volume. A total of 480 VHCCC contracts were signed during 2004/05. £96m was spent during the year on cases under contract.

Financial year	Contracts signed
2000/01	33
2001/02	54
2002/03	43
2003/04	558
2004/05	480

The LSC had a target to save £70m in 2004/05 through all VHCCC contracting. This became unachievable with the reduction in case volumes and consequent value of savings. The final saving for the year was £46m. However, there were savings of £2m on cases entering into the extended Crime Graduated Fee scheme.



Public Defender Service

Michelle Spriggs was arrested on suspicion of obtaining property by deception using a debit card and chequebook stolen by her boyfriend. She had been a victim of domestic violence during a previous relationship and had spent time in women's refuges. Michelle was influenced by her boyfriend and would do anything that he asked. She admitted to the crime during an initial police interview. For no apparent reason there was a seven month delay between the interview and Michelle being charged to four months in custody.

Michelle's PDS solicitor Daniel Williams thought the sentence was excessive as there had been such a delay between the offence and sentence being passed. In addition, Michelle had pleaded guilty, hadn't committed any further offences and had managed to extricate herself from her relationship with her boyfriend. Daniel appealed the sentence and it was reduced to a six-month Community Rehabilitation Order. Michelle is now living in her own flat, has not re-offended and hopes to re-establish contact with her children.



Enabling delivery

Access to justice involves ensuring that people get the quality advice and help they need to deal with their problems. Enabling delivery depends on the quality of our leadership, people, systems and use of

resources. Central to this is managing our administration and people to help us deliver our objectives, and ensuring that the structure of the organisation makes this easier.

Specific targets 2004/05 for enabling delivery (as published in the Corporate Plan)	Status	Progress in 2004/05
Increase customer service score for all functions to 85% by April 2005	Achieved	The year-end score for the LSC as a whole was 90%. The regional office score was even higher, at 93%.
Complete an organisational review by June 2004	Achieved	We restructured the organisation in June 2004 creating four new Directorates: Policy and Planning, Service Design, Service Delivery and Corporate Services.
Performance measurement system in place to measure performance for 2004/05	Achieved	We issued the initial performance report against 2004/05 targets in May 2004 and have since updated it monthly.
Ensure that 50% of all managers at Level 2/ Band C and above have attended a leadership development centre by April 2005	Partially achieved	At 31 March 2005 the figure was 41.8%. We met the 50% target in early April 2005.
Ensure that 90% of (substantive) account managers and lead assessors are rated effective or above at supplier management	Achieved	Performance reached 92% of (substantive) account managers and lead assessors rated effective or above at supplier management.
2004/05 staff survey results demonstrate employee understanding of key messages and improvement in internal communications	Partially achieved	The results showed that nearly 60% of our staff felt that they fully understood our business objectives and more than half felt that they fully understood our planned future direction. During a period of significant change, this was encouraging. We are now using this information to inform initiatives, such as staff conferences, around the country.
Media coverage begins to show key LSC messages coming through by end of 2004	Achieved	By the end of 2004 positive case studies of legal aid clients had appeared in regional press and on radio and a more balanced picture of legal aid work had started to emerge in the national press, particularly in relation to our rationale for key decisions and the objectivity of our criteria for funding cases.

“We are ensuring that the structure of our organisation, the quality of our leadership, people and systems and our use of resources enable us to deliver our objectives – helping clients access justice and get the quality advice and help they need to deal with their problems.”

Key milestones in enabling delivery (as published in the Corporate Plan)	Status	Progress in 2004/05
Performance management framework in place by April 2004	Achieved	We use the performance management framework as a source of management information to report on progress against our corporate targets. This was in place by the end of April 2004.
New complaints procedure in place by April 2004	Achieved	We launched the new complaints procedure in April 2004 and gave all caseworkers a Complaints Toolkit with guidelines on how to answer complaints.
Commence leadership development programme by June 2004 and complete by April 2006	Partially achieved	We began the programme in April 2004. By September 2005, all managers at Band C and above will have started the programme and completed the main elements by April 2006.
LSC website strategy agreed, and e-business test environment installed, by September 2004	Partially achieved	We had written and agreed the website strategy by April 2005. We installed the e-business test environment in February 2005.
Staff survey results by September 2004	Achieved	We made the survey results available to staff in September 2004.
Transformation of the HR function, with local HR support staff in post from July 2004. Central HR will thereafter focus on policy, quality assurance and continuous improvement activities	Partially achieved	Seven HR Managers were in post to support business units from July 2004 and a further five by the end of the financial year. Central HR is now becoming a focused consultancy services team.
Communications team fully in place by August 2004	Partially achieved	All but two members of the new team were in place by August 2004. One had been appointed to take up post in mid-September and the remaining recruitment has been put on hold.
Re-designed intranet developed by Spring 2005	Achieved	We finalised the intranet re-design in the final quarter of 2004/05 and launched our new intranet site on 1 June 2005.
Reduce complaints handling to three days by April 2005	Partially achieved	We achieved the new target to reduce complaints handling to three working days (formerly 10 days) in 94% of cases.

Organisational review

During 2004/05 we implemented key changes resulting from our organisational review. This was designed to allow us to provide the best service possible to our clients, and achieve success in our challenging reform programme. The Executive Team includes four Executive Directors supporting the Chief Executive and Deputy Chief Executive:

- the Policy and Planning Directorate focuses on identifying client needs, developing policy to meet these needs, and establishing effective partnerships across the Community Legal Service and the Criminal Justice System
- the Service Design Directorate focuses on designing and developing services to improve efficiency and value for money and provide clients with broader access to high quality services
- the Service Delivery Directorate focuses on developing partnerships with stakeholders and delivering consistent, high quality outcomes for customers
- the Corporate Services Directorate focuses on generating continuous improvement in our people, processes, infrastructure and support services.

Our administration budget in 2004/05

We were allocated £95.9m to pay for our 2004/05 administration costs. We carried forward £1.7m from our 2003/04 budget, giving us total available cash of £97.6m. The cash spend for the year was £96.4m. Our expenditure on a Resource Accounting and Budgeting (RAB) basis was £93.5m. Our resource based budget for 2005/06 is £92m.

Table LSC1 sets out expenditure for 2004/05 broken down into our new organisational structure.

Pension scheme

During the year we reviewed the funding of our staff pension scheme to ensure that we recognise our responsibilities to provide a good quality scheme. In addition to the employer contributions, which are 20% of payroll, we made a further £5m cash payment into the scheme. In consultation with our actuaries we intend to increase the employer contributions to 26% in 2005/06.

Programme management

During 2004/05 we refined our approach to managing programmes and projects to help us focus on our corporate priorities, deliver against our change programme and move forward to achieving our Vision.

Table LSC1: Key areas of expenditure 2004/05

Category	£m RAB
Policy and Planning	4.9
Service Design	3.0
Service Delivery	42.5
Chief Executive's Section ¹	2.0
Corporate Services	27.8
Property and capital	8.9
Pensions	4.4
Total	93.5

¹ Includes Commission board, LSC Audit Services and Secretariat.



We streamlined the programme board structure, with all work that contributes to our change programme grouped under five programme boards:

- Community Legal Service
- Children and Family
- Criminal Defence Service
- Supplier Management
- Enabling Delivery.

An overarching Change Programme Board is responsible for overseeing all change-related project work within the LSC. Each programme board has a core membership designed to ensure that each of our four Directorates is represented. The Chair of each board can appoint additional members, and generally two non-executive Commissioners also sit on each board. A programme office co-ordinates the activities of the programme boards and ensures standards are maintained.

Leadership skills and talent management

We began a leadership development programme in April 2004. The Executive Team was the first group to join the programme, followed by a total of 90 senior managers by the end of 2004/05.

The programme is built around a 'leadership profile', which describes what successful leadership looks like in the LSC. Participants complete a 360-degree feedback process and attend a development centre to help them identify their strengths and development areas against the profile. This enables them to

plan their personal development so they can become better leaders. A number of core workshops also form part of the programme. These focus on key skills, knowledge and behaviours for successful leaders, such as observing performance and giving feedback.

We also recognise that talent management is important throughout the organisation. A group has been set up to define the skills that the LSC needs for the future, and design a process that will help us to recognise talent and help people develop their skills and progress their careers with the Commission.

During 2004/05 we restructured our HR function. Business units now have their own HR Managers, who are responsible for creating and implementing local 'people plans'. These plans outline the people priorities for the office (for example in terms of recruitment, learning and development and performance management) and how these will be managed at a local level. A central consultancy services team focuses on policy, quality assurance and continuous improvement activities.

During 2004/05 there were no reportable accidents or occurrences under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995.

Equality and diversity

In April 2004 we approved an equalities action plan based on issues identified during 2003/04. The action plan is a live document and reflects our commitment to promoting equality and eliminating discrimination whether as an employer or in helping

people to get quality legal services that tackle real needs. We continued to go beyond the requirements of the Race Relations (Amendment) Act 2000 to monitor and report on gender and disability as well as race, publishing our second *Equalities Annual Report* in December 2004. This inclusive policy has given us a head start in preparing for the new public duties to promote disability and gender equality. We have reviewed our *Equality Scheme* and updated our equalities action plan.

In June 2004 we rolled out equality and diversity training for all Commission staff. This was carried out by an equality and diversity consultancy following a cultural audit and training needs analysis during 2003/04.

In January 2004 a disability access consultant audited the LSC's premises. This enabled us to begin a programme of work to improve accessibility for the public and staff who use our premises. Maintaining a high level of accessibility is an ongoing task that we will continue to review. This task has been made easier by our employees' enthusiasm for learning to be more disability aware. Formal training in disability awareness was delivered to reception staff and further awareness training will be delivered to other people under the equalities action plan.

Communications

A new communications function was created in 2004 to help the LSC:

"build understanding of the Commission's goals and achievements through effective communication with employees, partners and stakeholders."



Working with service providers

When Margaret Houdmont started her new legal firm MH Legal, specialising in mental health, together with Pam White, they were pleased to be asked by the LSC to attend a training course that would help them obtain a Quality Mark and achieve Category 1 cost compliance (when audited by the LSC).

The course covered all they needed to know to apply for the Quality Mark and to prepare their bills. This saved an enormous amount of time, especially when setting up the firm.

Meeting the LSC faces behind the names helped Margaret and Pam feel confident that the LSC knew the kind of work they were doing and understood their particular field. Their progress was monitored through continuous contact during the first year, helping MH Legal and the LSC to work in partnership.

Margaret said, "if the LSC offers us any further training we would be very pleased to attend and we have told other mental health practitioners about the training we received."

The aim is to build the commitment and buy-in of these groups to ensure that the LSC can deliver against its corporate priorities and achieve its Vision.

The central team is based in our London head office, and works closely with a new network of communications managers in regional offices.

The communications team:

- manages the LSC's internal and external corporate communications channels
- plans and delivers communications campaigns and activities
- manages all pro-active and re-active media relations activity
- supports senior managers in communicating our work and achievements to Government, the legal profession and other key stakeholder groups
- shares best practice and promotes communications excellence within the LSC.

Building a team with the right professional skill sets to deliver an ambitious ongoing programme of pro-active communications, both centrally and in the regions, was a key focus in 2004/05.

We have made significant progress in improving both internal and external communications and have focused on demonstrating how our work helps people to protect their rights and deal with serious problems in their lives. To achieve this, we have developed case studies and have consistently communicated our key messages through our publications, events and websites, as well as working with the press and broadcast media to ensure more balanced coverage of legal aid work.

Achievements in 2004/05 include:

- putting in place processes for evaluating the effectiveness of internal communications and analysing media coverage. This means we can accurately measure our future progress in helping key stakeholders to understand the importance of what the LSC does

- reshaping the annual staff survey so that it enables us to track employees' understanding of and commitment to the LSC and its strategy
- implementing a new visual styling for our corporate publications and materials which reflects our focus on the people we are here to help – advice and legal aid clients
- launching a more accessible and user-friendly LSC website at www.legalservice.gov.uk. The site was developed following extensive research and consultation and was designed to make it easier to navigate and more accessible for all users
- re-designing our intranet in line with knowledge management best practice so that we can access and share information more efficiently
- establishing a new way of working with journalists, building strong relationships and creating new opportunities
- receiving positive feedback in a survey of legal aid service providers about our *Focus* newsletter, with readers finding its articles clear and interesting, and using it for reference
- delivering a programme of employee communications as the organisational review and corporate change programme progressed
- promoting legal aid work to students and young lawyers as a career of choice by exhibiting at the Graduate Law Fair, arranging a programme of work shadowing, sponsoring the Young Legal Aid Lawyer of the Year award and the Young Solicitors Group legal aid conference.

Freedom of information

The Freedom of Information Act 2000 came into force on 1 January 2005. It is an important aspect of the Government's drive towards increased transparency, openness and access to official information. Members of the public now have a general right to request access to official information held by the LSC and we encourage disclosure where it is right to do so.

The Commission has a publication scheme to assist with the active release of information. Although there are limited exemptions to this

right under the Freedom of Information Act, we always weigh the benefit of withholding information against any harm in disclosing it.

More information about our policy on freedom of information and how to make requests can be found on our website at www.legalservices.gov.uk or in our leaflet titled *Access to Information* available on request from our regional offices.

Customer service

During 2004/05 we extended our 'mystery shopping' process and customer service score to measure head office departments as well as regional offices. We now have a more comprehensive picture of the quality of service our customers receive. As at March 2005, the national customer service score was 90%, against our end of year target of 85%.

During the year we developed a revised quality control for our decision-making in relation to processes such as legal aid applications and complaints handling. We now check a greater number of processes in a more consistent manner. This allows us to make business process improvements and ultimately, improve our service.

We piloted a survey of legal aid users' experiences of LSC services and this qualitative data will inform further customer service improvements. We also surveyed suppliers' experiences and the analysis of the results informs our supplier management initiatives.

As a measurement of our customer service, we set ourselves performance targets for business processing activities, such as the number of applications processed and the number of bills paid within a given time period. Table LSC2 demonstrates our performance against time-taken targets for several key business processes that we carry out in our regional offices. During 2004/05 we achieved performance of over 90% against targets for the majority of our processing work.

Complaints

The number of complaints received has been steadily declining since 2000 and this trend has continued. In 2004/05 we received 2,541 new complaints compared to 2,986 in 2003/04 as shown in table LSC3.

Table LSC2: Business processing performance against targets 2004/05¹

Category of business	100% target 2004/05	Performance 2004/05	Performance 2003/04
Applications processed			
Civil funding	8 weeks	96%	96%
All applications – to amend or for prior authority in civil funding	6 weeks	99%	98%
Bills paid			
Civil bills – taxed and assessed	8 weeks	94%	91%
Family Graduated Fee bills	8 weeks	94%	92%
Criminal non-standard fee	8 weeks	99%	97%
Funding Review Committee appeals and reviews of civil funding decisions²			
Time from receipt of application to date of hearing ³	8 weeks ⁴	68%	78%
	10 weeks ⁴	76%	84%

1 Residual old style legal work (ie advice and assistance, ABWOR, PACE, standby, court duty solicitor) is no longer measured against targets owing to the small volumes received.

2 For appeals of Legal Aid Act 1998 cases, the Funding Review Committee has the powers of an area committee, and can determine whether funding is granted or refused. For reviews of Access to Justice Act 1999 cases, the Committee has powers to confirm the decision or refer the matter back to the regional director for reconsideration.

3 Time-taken statistics relate to all appellants to the Funding Review Committee.

4 8 weeks is our primary target. 10 weeks is a secondary target.

Through our compensation scheme, we make payments for financial loss incurred as a result of material errors or omissions on our part, often referred to as maladministration. During 2004/05 we received 236 claims, of which 77 were still undergoing determination. Of the 159 cases for which there were decisions, the value of payments was £189,680. This is a decrease compared to the £243,800 paid in 2003/04.

We set up a new committee, called the Customer Redress Committee, with effect from 1 April 2005. The committee will deal with ex gratia compensation claims arising out of maladministration.

Parliamentary Commissioner for Administration

The number of cases referred to us by the Parliamentary Commissioner for Administration was similar to last year:

- the number of statements of complaint fell from seven to one
- the number of preliminary enquiries increased from 27 to 28
- the number of complaints proceeding to statutory investigations stayed the same at three.

The LSC Audit Committee considers in detail all statutory reports from the Parliamentary Commissioner for Administration. Wherever possible we try to correct our mistakes and make improvements to avoid problems occurring in the future. To make this more effective, we have established strong links between the customer redress process and those working on customer service initiatives. Our Customer Services Manager has joined the new Customer Redress Committee and will feed back lessons learnt into the design of business processes.

Representations

When we grant public funding to an individual, their opponents or other third parties may make representations against the grant or continuation of funding. Representations may be made concerning the legal merits of the case, the financial means of the applicant, or both. During 2004/05, the number of representations we received declined by 12%, with 3,438 received against the 2003/04 total of 3,891. Table LSC4 gives detailed figures about our handling of representations during 2004/05.

Other developments in enabling delivery

The LSC also completed a number of other developments and achievements aimed at enabling and improving delivery. During 2004/05 we:

- continued to validate and issue statements for statutory charges, which the LSC holds on property that people have recovered during a civil case as a way to recoup costs to the legal aid Fund. During 2004/05 we successfully issued 14,000 accurate statements against a target of 12,600. In addition, we sent 10,000 repeat statements to clients and improved the accuracy of the IT data held on another 6,000 cases
- completed enhancements to our IT systems, including our audit performance system and our corporate information system
- equipped all our offices with video-conferencing facilities to improve efficiency of meetings
- investigated a new rolling programme for financial planning to replace the current annual focus, which will be more responsive to changing business goals and priorities. We are also further improving our financial forecasting.

Table LSC3: Complaints 2004/05

	2004/05	2003/04
New complaints ¹ received	2,541	2,986
Total complaints closed out	2,390	2,852
Regional further complaints ² received	138	241
Total complaints closed out	115	197
Head office complaints received ³	501	379
Number that were not from a Member of Parliament or DCA	147	234
Total complaints closed out	379	373

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

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

3 Head office complaint: any complaint dealt with previously by a regional office, and any complaint received directly in head office from a Member of Parliament or the DCA.

Table LSC4: Representations 2004/05

	2004/05				2003/04			
	Merits	Means	Merits & means	Total	Merits	Means	Merits & means	Total
Number received	1,520	1,748	170	3,438	1,862	1,834	195	3,891
(As % of total) ¹	44%	51%	5%	–	48%	47%	5%	–
Outcome of investigation into representation(s):								
No change ²	1,176	1,023	101	2,300	1,543	1,151	136	2,830
Application refused	2	36	2	40	8	8	0	16
Certificate amended	25	71	15	111	44	93	7	144
Certificate discharged	231	264	19	514	345	218	30	593
Certificate revoked	17	393	31	441	21	427	35	483
Total representations closed out ³	1,451	1,787	168	3,406	1,961	1,897	208	4,066

1 Percentages may not add up to 100% because of rounding.

2 Outcome 'No change' includes representations that did not merit investigation into the issues raised (for example where the information was irrelevant or already known to the Commission).

3 Total representations closed out (whatever type) can include representations that were received in the previous year. To deal with representations properly takes time, because of the need to contact third parties to confirm information, and regulations allow the funded client or their solicitor a reasonable period of time to respond to the issues raised. This means there is a time lag between receipt of representations and when they are fully closed out.



Glossary of key terms

Act of assistance	An event which gives rise to a unique claim from a solicitor or not-for-profit supplier for providing advice, assistance or representation to one or more people.
Category 1	Following a cost compliance audit, suppliers are rated in categories according to the outcome. If the percentage of the claim that we provisionally deduct on audit is between 0% and 10%, the supplier is rated as Category 1.
Category 2	If the percentage of the claim is between 10% and 20%, the supplier is placed in Category 2.
Category 3	If the percentage of the claim is above 20%, the supplier is placed in Category 3.
CDS	The Criminal Defence Service ensures access for individuals involved in criminal investigations or proceedings to such advice, assistance and representation as the interests of justice require.
Civil Representation	Representation by solicitors and barristers for civil cases, which could go to court.
CLS	The LSC provides publicly funded civil legal and advice services as part of the Community Legal Service network.
Controlled Work	Work under the civil contract that covers legal advice and assistance (Legal Help), Help at Court and Legal Representation in front of Mental Health Review Tribunals and the Immigration Appellate Authorities.
Criminal Higher	Legal representation in the Crown Court and above.
Criminal Lower	Work carried out by our suppliers at police stations and in the magistrates' courts.
DCA	The Department for Constitutional Affairs is the LSC's sponsoring government department.
FAInS	The Family Advice and Information Service is a project examining new ways of delivering information, advice, legal services and referral in order to minimise distress and promote ongoing family relationships.
Funding Code	This sets out legal merits criteria for the granting of public funding. It is established under the Access to Justice Act 1999.
General Civil Contract	The contract with suppliers through which civil legal and advice services are delivered.
General Criminal Contract	The contract with suppliers through which criminal legal and advice services are delivered.
Legal Help	Legal advice and assistance.
Licensed Work	Work under the civil contract that covers all other Legal Representation, except work covered by Controlled Work or Very High Cost Cases, which are managed under separate contracts.
Matter starts	A matter refers to an instance of help given by a supplier to one of our clients under the Legal Help scheme and does not cover representation at court. Solicitors' contracts set out the number of matters the supplier is authorised to start in a particular year.
Not-for-profit	Organisations focused on the needs of the people or communities they serve.
Public Defender Service	CDS services delivered directly to the public, rather than through private practice solicitors.
Quality Mark	The set of quality assurance standards for legal information, general advice and specialist legal services, which underpins the quality of service provision in both the CLS and CDS.
Tolerance	Usually suppliers undertake work in a particular category (for example, family). Tolerance refers to work that is not confined to any specific category.
VHCCs	Very High Cost Cases are defined as civil cases which are likely to cost over £25,000.
VHCCCs	Very High Cost Criminal Cases are defined as all criminal cases which are expected to last more than 41 days in court.

Financial Statements 2004/05

Statement on Internal Control 2004/05

Scope of responsibility

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

The following internal controls have been established within the Legal Services Commission:

Structures

- a separation and clear distinction of the roles of Chair and Chief Executive
- an independent Commission, which comprises nine members including myself as the executive member
- an Audit Committee with three non-executive members, which is attended by representatives from the Department for Constitutional Affairs and the internal and external auditors
- a Finance and General Purposes Committee, which can make policy decisions in the context of financial impacts
- a Change Programme Board, which has stewardship of the LSC's agreed corporate strategic vision and direction and oversight of programme management across the organisation
- an external independent body as auditor.

Standards

- codes of conduct for both Commissioners and staff, which include guidelines on reporting conflicts of interests
- a robust anti-fraud policy and fraud response plan
- a clear risk management policy statement and strategy.

Processes

- an annual risk-based internal audit programme
- recognised processes for delegated financial authorities
- high standards of financial reporting
- effective risk management, co-ordinated by the Statement on Internal Control Focus Group.

The LSC reports quarterly to the Department for Constitutional Affairs on the management of risk. During 2004/05 the LSC's corporate risk schedule was restructured to bring it in line with the model used by the DCA, which facilitates reporting the LSC's risks to its sponsoring Department. The LSC's key risk exposures are consistently reported to the DCA and incorporated as necessary into its overarching risk schedule.

Effective communication links are maintained with the DCA. For example, I attend the DCA's quarterly Executive Committee meetings where regular updates on risk management are provided; the Commission's Audit Committee is attended by a representative from the DCA and regularly reviews the effectiveness of the risk management and internal control processes; the Audit Committee Chair attends meetings of the DCA Audit Committee and the Commission's Chair meets regularly with the Secretary of State. Risk management issues are escalated to Ministers where appropriate.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the LSC'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 LSC for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

Effective risk management is fundamental to the organisation's success. All identified significant risks that threaten to impact on the successful delivery of the Commission's agreed corporate and business objectives are assessed and managed. The LSC continues to be committed to embedding effective risk management mechanisms in its management processes.

The Commission delegates responsibility for oversight of the risk management system to the Audit Committee. As Accounting Officer, I am responsible and accountable for the overall operational management of the system, and I designate specific management responsibility for individual corporate risks as appropriate. The Executive reports bi-annually to the Commission on the management of risk.

To ensure that risk is robustly managed throughout the organisation a mechanism operates as part of the LSC's business planning and management system to:

- identify and assess risk
- prioritise risk
- actively manage risk
- review and report risk.

All managers are required to ensure that each element is fully addressed as part of their respective business management processes. It is the responsibility of all managers to effectively manage operational risks that may impact on the efficient and effective delivery of key objectives. Risk management guidance forms part of the planning guidance issued to all business functions.

Risk management training is delivered through a number of sources including the ongoing leadership development programme, business planning and project/programme management training.

The SIC Focus Group is responsible for managing the interface between all aspects of risk management, including corporate, operational and programme risk; consulting and liaising with key groups; and disseminating good practice.

The risk and control framework

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

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

The business planning round is used to identify new or emerging risks and to re-assess changing risks. Risks are evaluated in terms of their impact on corporate objectives and key priorities and likelihood of occurrence. An indication is provided as to how they will be managed.

The priority that is given to a risk is used to inform the most appropriate response to that risk. Risks that have a high impact and high likelihood are given the highest priority.

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

- during December 2004 the Commission approved a revised risk management policy and strategy which sets out the relationship between corporate, operational and programme/project risk and how the LSC's approach fits into the DCA's and the wider risk work across Government. This was communicated to all staff via the intranet
- the corporate risk schedule is formally reviewed twice a year by the Commission and quarterly by the Executive. It is used as a source of management information and forms part of the planning guidance issued to all business functions. Managers are expected to use it as a source of reference when undertaking a risk assessment of their individual business plans
- project managers are required to maintain a project risk register in accordance with accredited methodology. These are reviewed by the Project Board and escalated to the Programme Board where necessary
- risk management concepts are incorporated, as far as is practicable, into the LSC's *Roles and Responsibilities and Competency Framework*. This aims to support the process of embedding risk management across the organisation and to strengthen the quality of performance objective setting for those responsible for managing risk within the LSC.

The work of the LSC is joined up with government departments and representative bodies such as the Law Society through consultation and other channels of communication like strategic boards. For example, during 2004/05, the Chief Executive sat on the DCA Corporate Board, as did the Chief Executive of the Court Service. The LSC is committed to end-to-end planning and assessment of whole system impacts. A positive development for the LSC over 2004/05 has been the introduction of the requirement for government departments to carry out a legal aid impact assessment in relation to proposed policies.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the LSC who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Commission, the Audit Committee and the Executive Team, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

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

- bi-annual reviews of corporate risk by the Commission, including approving an updated *Risk Management Policy Statement and Strategy* in December 2004
- quarterly reviews of risk management developments by the Audit Committee, in accordance with the recommendations in the *Audit Committee Handbook*, including continual liaison between the SIC Focus Group and the Audit Committee Chair
- continual oversight and drive for improvement by the SIC Focus Group, including contributing to discussions about the risk management structure within the LSC

- investigations and recommendations for improvements by the internal audit function, including an *Internal Audit of Risk Management* issued in November 2004
- oversight of risk management at programme level by the Change Programme Board, including endorsing the introduction of best practice standards for projects and delivering formal training.

Specific actions to support the mitigation of risks during 2004/05 included:

- implementing programme management across the organisation. The Programme Board structure incorporates risk management and a robust control framework and promotes these in the context of change. This allows the LSC to manage change effectively
- ensuring that the quality of contract audits is maintained at an effective level through an independent paper-based quality control process and through control audit peer review. The LSC now has panels of peer reviewers in all major categories of law to actively reduce the risk of inconsistency in a key business process
- increasing the immigration and asylum assured supplier base in support of our commitment to establish a focussed, high quality service that meets client need in an effective and efficient way. This risk-based change in focus is in line with a decrease in case volumes, helping us meet demand through better suppliers that pose less risk in terms of service delivery
- doubling the number of suppliers using our e-business service, 'LSC online'. We have been actively developing plans for business processing in order to reduce the risks associated with duplicated data entry. We are planning to introduce electronic transmission of legal aid certificates and other documentation that will add efficiency and effectiveness to the process. We are likely to make further improvements to our e-business position as part of the Preferred Supplier initiative. This initiative additionally links to an improved governance and control framework.

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

Clare Dodgson

Chief Executive

20 June 2005

Legal Services Commission Financial Statements 2004/05

Foreword

Introduction

The Legal Services Commission (the Commission) is a body corporate as set out in Section 1 and Schedule 1 of the Access to Justice Act 1999 (the Act).

Statement of accounts

The statement of accounts of the Commission for the period 1 April 2004 to 31 March 2005 has been prepared in a form directed by the Secretary of State for Constitutional Affairs with the consent of the Treasury in accordance with paragraph 16 of Schedule 1 to the Act.

The Commission is required to keep separate financial statements for the Community Legal Service (CLS) Fund and the Criminal Defence Service (CDS) and for the income and expenditure of the Commission. The financial statements have been prepared on the accruals basis of accounting.

Statutory background

The Legal Services Commission

The Commission is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the Commission's financial position and enable the Commission to ensure that its financial statements comply with the Act and the directions provided by the Secretary of State. The Commission's *Financial Memorandum* requires it to ensure that its accounting and other procedures incorporate adequate safeguards against theft and fraud.

The Commission has the following duties relating to its administrative activities as required by the Act:

- (a) to take account of any guidance issued by the Secretary of State when considering how it will discharge its functions
- (b) to provide to the Secretary of State, and publish, an annual plan setting out how it intends to exercise its functions
- (c) to provide to the Secretary of State, and publish, an annual report on how its functions have been exercised
- (d) to keep account and prepare a statement of accounts for each financial year and to send the statement of accounts to the Secretary of State and to the Comptroller and Auditor General.

The Commission's duties in respect of the CLS and the CDS are outlined in the foreword to the financial statements of the CLS Fund and CDS.

The Secretary of State and Lord Chancellor

The Secretary of State is accountable to Parliament for the activities and performance of the Commission within the terms of the Act. With regard to the Commission's administrative duties, the Act gives the Secretary of State the following responsibilities:

- (a) to appoint the members and Chair of the Commission, having regard to securing members who between them have experience in, or knowledge of, matters specified in the Act
- (b) before appointing members of the Commission, to satisfy himself that potential members have no financial or other interests which might prejudice their functions as members, and to satisfy himself from time to time that members of the Commission have no such interests
- (c) to finance the administrative costs of the Commission
- (d) to publish, or require the Commission to publish, any directions he issues and any guidance he gives to the Commission as to the manner in which he considers it should discharge its functions
- (e) to lay before each House of Parliament the Commission's annual plan and annual report.

Principal publicly funded activities

The Commission's principal activity is the provision of publicly funded legal services for those of small or moderate means, providing they can show sufficient cause for such services to be provided. Details of the services funded by the Commission are outlined in the foreword to the financial statements of the CLS Fund and CDS.

Review of activities and future developments

A review of the Commission's activities during the year and details of the Commission's performance against agreed measures and targets can be found in the 2004/05 annual report.

Future activities and development plans for legal services which are to be funded by the Commission as part of the CLS and the CDS are contained in the Commission's Corporate Plan, 2005/06 – 2007/08, which will be available on the Commission's website at www.legalservices.gov.uk. Some commitments are set out in the 2004/05 annual report.

Results for the year

The grant-in-aid applied to fund the expenditure of the Commission was £98.5m (2003/04: £89.8m). The operating surplus was £6.3m (2003/04: £6.9m) and net liabilities at year-end were £22.1m (2003/04: £14.8m). The movement in tangible fixed assets for the year is set out in note 6 to the financial statements.

Going concern

The balance sheet at 31 March 2005 shows net liabilities of £22.1m. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from the LSC's other sources of income, may only be met by future grants-in-aid from the LSC's sponsoring department, the Department for Constitutional Affairs. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need.

Grant-in-aid for 2005/06, taking into account the amounts required to meet the LSC's liabilities falling due in that year, has already been included in the department's estimates for that year, which have been approved by Parliament, and there is no reason to believe that the department's future sponsorship and future parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Research and development

During the year, the Commission carried out a programme of research to assist the Commission in fulfilling its objectives for the CLS and the CDS. Details of the work are outlined in the foreword to the financial statements for the CLS Fund and the CDS. The total research and development costs expended during the year amounted to £1.1m (2003/04: £0.8m) as reported in the financial statements.

Commission members and their responsibilities

The members of the Commission are appointed by the Secretary of State following an open, competitive selection process carried out in accordance with central government guidance on public appointments. The following members served on the Commission during the financial year 1 April 2004 to 31 March 2005:

Philip Ely OBE (Chair to 31 December 2004); Angus Andrew; Clare Dodgson (Chief Executive and Executive member); David Edmonds CBE; Anthony Edwards; Tina Fahm (from 1 November 2004); Juliet Herzog; Sheila Hewitt (to 30 September 2004); Tom Jones OBE; Yvonne Mosquito; Margaret Richards; Dr Lily M Segerman-Peck (from 1 November 2004); Jim Shearer OBE (Acting Chair between 1 January 2005 and 31 March 2005).

In accordance with the Commission's *Code of Best Practice for Members of the Legal Services Commission*, a register of financial and other interests was maintained and regularly updated throughout the year. A copy of the register is available on the Commission's website at www.legalservices.gov.uk/about_us and is available for inspection on request to the Secretariat department at 85 Gray's Inn Road, London WC1X 8TX.

Commission members have corporate responsibilities relating to the governance of the Commission, as a non-departmental public body, and the provision of services. The role of the Commissioners can be compared to that of the directors of a public company. They are responsible for establishing the overall strategic direction of the Commission, within a framework agreed with the Secretary of State, and ensuring that the Commission complies with any statutory or administrative requirements for the use of public funds. The Access to Justice Act 1999 requires that between them, members have experience and knowledge of the provision of services which the Commission can fund as part of the CLS and CDS; the work of the courts; consumer affairs; social conditions; and management. Other key responsibilities of Commissioners include ensuring that high standards of corporate governance are observed at all times and ensuring that in reaching decisions, the Commission takes into account guidance issued by its sponsoring Department.

Non-executives continued to be involved in key committees and provided a valuable independent and objective view. During the course of 2004/05, several non-executives chaired the Regional Legal Services Committees that the Commission operates for its eleven geographical regions. Some served as Chairs and members of the Commission's national committees, including the three corporate governance committees – Audit, Finance and General Purposes, and Human Resources – the Contract Review Body, the Costs Appeals Committee, the Multi-Party Action Committee, the Public Interest Advisory Panel and the Specialist Fraud Panel Committee.

The Executive Team

The Executive Board comprising of seven members was replaced by the Executive Team on 1 June 2004. The Executive Team is the senior executive group of the Commission, chaired by the Chief Executive and responsible for the day-to-day management of the organisation. The Executive Team comprised the following members during 2004/05:

- Clare Dodgson, Chief Executive
- Brian Harvey, Deputy Chief Executive and Acting Executive Director of Corporate Services
- Richard Collins, Executive Director of Policy and Planning
- Mike Jeacock, Executive Director of Service Delivery
- Jonathan Lindley, Executive Director of Service Design.

During 2004/05 the Team considered issues and made decisions related to the whole range of the Commission's activities, focusing on delivery, the progress of change and control of business functions, as well as the following:

- corporate plans and strategies – including the setting of budgets, objectives and priorities, and variations to those plans and strategies
- proposals for new corporate policies or amendments to existing policies
- results of corporate reviews
- reports on pilots, research etc.
- changes to the location of responsibility within the organisation.

Remuneration

Information on the remuneration of members of the Commission and members of the Executive Team can be found in note 3 to the financial statements.

Pension liabilities

Details regarding the treatment of pension liabilities are set out in note 4 to the financial statements.

Equal opportunities and diversity

The Commission is committed to equality of opportunity both as an employer and in the provision of services. The Commission opposes all forms of discrimination and is committed to the principle that no job applicant or employee shall face discrimination. Nor will the Commission tolerate any practices that result in the provision of a lower standard of service to any group or individual because of unfair or unlawful discrimination.

Employee involvement

The Commission formally communicates with its staff on issues and changes to the terms and conditions of employment through the Joint Consultative and Negotiating Committee. The Committee is made up of representatives of management and employees of the Commission approved by the GMB and the First Division Association, the two unions recognised by the Commission to represent staff members of the respective unions.

A senior leadership group within the Commission was consulted on the objectives set for the Commission and on the development of its business plan. This group comprises senior managers from the regional offices and also from central functions who have the opportunity to contribute to the policy development of the plan. Staff have also had the opportunity to contribute to the business planning process.

Managers hold regular section and team meetings to communicate the Commission's objectives to all staff, where everyone can ask questions and give their views.

The trustees of the Commission's staff pension and assurance schemes include two member-nominated trustees.

External auditor of the Legal Services Commission

Paragraph 16 of Schedule 1 to the Access to Justice Act 1999 provides that the Commission's external auditor is the Comptroller and Auditor General.

The cost of the audit is disclosed in note 8 to the accounts and relates solely to statutory audit work.

Timeliness in paying bills

The Commission aims to collect receipts and promptly pay all properly authorised invoices in accordance with the terms of contracts or within 30 days. During 2004/05 92% of properly authorised invoices were paid within 30 days. We plan to continue to monitor progress on a monthly basis during 2005/06 to ensure we improve our performance in this area over the course of the financial year.

Clare Dodgson

Chief Executive

20 June 2005

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

The Secretary of State for Constitutional Affairs is responsible to Parliament for the proper and efficient use of monies voted for the administrative grant-in-aid paid to the Legal Services Commission. He exercises these responsibilities through his Department's Principal Accounting Officer, who has designated me – as Chief Executive of the Commission – as the Commission's Accounting Officer.

As the Commission's Accounting Officer, I am answerable to Parliament for the Commission's expenditure. I have personal responsibility for the propriety and regularity of the public finances for which I am answerable; for the keeping of proper accounting records; for preparing financial statements for the accounts of the Commission's grant-in-aid; for prudent and economical administration; for the avoidance of waste and extravagance; and for the efficient and effective use of all the resources in my charge. I have responsibility for good management of public money in relation to the administrative expenditure of the Commission, to ensure that the income and expenditure presented in the accounts have been applied to the purposes intended by Parliament; for the regularity of management and financial accounts information; and for ensuring that the Commission's officers fully understand the principles which they should apply to expenditure, and the authorities which govern them.

I act in accordance with a range of certain general and specific responsibilities and with other instructions and guidance issued periodically by the Department for Constitutional Affairs, the Treasury and the Cabinet Office – in particular the Treasury's *NDPB Accounting Officer Memorandum* (Annex 8.2 of *Government Accounting*) and the Treasury document *Regularity and Propriety*.

I have the personal duty of signing the Commission's statement of accounts and the further duty of being a witness before the Committee of Public Accounts from time to time to deal with questions arising from the statement of accounts, or from reports made to Parliament by the Comptroller and Auditor General (C&AG) under the National Audit Act 1983.

Under paragraph 16 (1) of Schedule 1 to the Access to Justice Act 1999, the Commission is responsible for keeping the books of account and for preparing each financial year a statement of accounts. For the 2004/05 financial period, the appended financial statements have been prepared in accordance with paragraph 16 (1) of Schedule 1 to the 1999 Act and with the directions given by the Secretary of State under paragraphs 16 (2) and 16 (3) of the 1999 Act and with directions made by the Treasury relevant to their preparation. The C&AG will audit the statement of accounts and the Secretary of State will lay before Parliament a copy of the statement of accounts and the C&AG's report on them.

I am also responsible for ensuring that appropriate controls are in place to protect the integrity of the Commission's internet site. This includes ensuring that there are reasonable controls to guard the accuracy and completeness of the annual report document (incorporating the audited 2004/05 Accounts) that is available to the public on the Commission's website.

Clare Dodgson

Chief Executive
20 June 2005

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

I certify that I have audited the appended financial statements of the Legal Services Commission under the Access to Justice Act 1999. These financial statements comprise the Income and Expenditure Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash Flow Statement and the related notes. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies as set out therein.

Respective responsibilities of the Commission, Chief Executive and the Auditor

As described in the Statement of the Legal Services Commission's and Chief Executive's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements under the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of Treasury and for ensuring the regularity of financial transactions. The Commission and the Chief Executive are also responsible for the preparation of the other contents of the annual report. My responsibilities, as independent auditor, are set out in the Access to Justice Act 1999 and are guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of Treasury and whether in all material respects the income and expenditure have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Legal Services Commission has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

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.

I review whether the statement on internal control reflects the Legal Services Commission's compliance with Treasury's guidance *Corporate Governance: Statement on Internal Control*. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Legal Services Commission's corporate governance procedures or its risk and control procedures.

The maintenance and integrity of the LSC's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Commission and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Legal Services Commission's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Legal Services Commission at 31 March 2005 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General

27 June 2005

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

Legal Services Commission Income and expenditure account

For the year ended 31 March 2005

	Note	2005 £000	2004 £000
Grant-in-aid	2	98,454	89,797
Other operating income		296	176
		98,750	89,973
Employment costs	3, 4	(54,013)	(47,179)
Depreciation	6	(1,777)	(1,322)
Other operating charges	7	(36,636)	(34,611)
Operating surplus	8	6,324	6,861
Interest receivable and similar income	9	1,164	2,879
Interest payable and similar charges	10	(1,612)	(640)
Other finance costs	11	(963)	(492)
Cost of capital charge	1f)	646	679
Surplus for the year		5,559	9,287
Reversal of cost of capital charge	1f)	(646)	(679)
Retained surplus for the year	16	4,913	8,608

All income and expenditure are derived from continuing operations.

The notes on pages 74 to 93 form part of these financial statements.

Legal Services Commission

Balance sheet

At 31 March 2005

	Note	2005 £000	2004 £000
Fixed assets	6	7,720	4,235
Current assets			
Debtors	14	5,263	3,282
Cash at bank and in hand	13	833	2,632
		6,096	5,914
Creditors: amounts falling due within one year	15	(3,386)	(3,066)
Net current assets		2,710	2,848
Total assets less current liabilities		10,430	7,083
Creditors: amounts falling due after more than one year	15	–	(54)
Provision for liabilities and charges	21	(5,917)	(3,886)
Net assets excluding pension liability		4,513	3,143
Pension liability	4	(26,614)	(17,976)
Net liabilities including pension liability		(22,101)	(14,833)
Capital and reserves			
Income and expenditure reserve	16	(29,821)	(18,746)
Government grant reserve	16	7,720	3,913
		(22,101)	(14,833)

Clare Dodgson

Chief Executive and Accounting Officer

20 June 2005

The notes on pages 74 to 93 form part of these financial statements.

Legal Services Commission Cash flow statement

For the year ended 31 March 2005

	Note	2005 £000	2004 £000
Reconciliation of operating surplus to net operating cash flows			
Operating surplus		6,324	6,861
Depreciation charges and loss on disposal		1,938	1,322
Release of government grant reserve		(1,616)	(1,161)
(Increase) in debtors		(1,953)	(862)
(Decrease)/increase in creditors		(159)	1,367
Increase in provisions		2,031	538
Net cash inflow from operating activities		6,565	8,065
Cash flow statement			
Net cash inflow from operating activities		6,565	8,065
Returns on investments and servicing of finance	12	(531)	2,247
Other finance charges and pension payments		(8,313)	(7,986)
Capital expenditure	5, 12	(4,943)	(3,179)
Financing	12	5,423	3,183
(Decrease)/increase in cash	13	(1,799)	2,330
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash		(1,799)	2,330
Net funds at 1 April 2004		2,632	302
Net funds at 31 March 2005	13	833	2,632

The notes on pages 74 to 93 form part of these financial statements.

Legal Services Commission Statement of total recognised gains and losses

For the year ended 31 March 2005

	Note	2005 £000	2004 £000
Retained surplus for the year		4,913	8,608
Actuarial (loss) recognised in the pension scheme	4, 16	(15,988)	(1,474)
Total recognised (losses)/gains relating to the year		(11,075)	7,134

The notes on pages 74 to 93 form part of these financial statements.

Legal Services Commission

Notes to the financial statements

For the year ended 31 March 2005

Note 1 – Statement of accounting policies

These financial statements are prepared in accordance with the Treasury's *Executive Non-Departmental Public Bodies Annual Reports and Accounts Guidance* and applicable accounting standards. They are in a form as directed by the Secretary of State for the Department for Constitutional Affairs with the approval of the Treasury.

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

a) Accounting convention

The accounts are prepared under the historical cost convention. This complies with Treasury guidance, except that fixed assets have not been revalued to their current cost. Any differences between current cost and historical cost are not expected to be significant and accordingly a formal revaluation exercise has not been undertaken. Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Companies Act and accounting standards issued by the Accounting Standards Board so far as those requirements are relevant. The accounts are also consistent, where appropriate, with generally accepted accounting practice in the United Kingdom (UK GAAP).

b) Tangible fixed assets

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

c) Depreciation

Depreciation is provided on all fixed assets on a straight line basis to write off the cost of tangible fixed assets over their estimated useful lives as follows:

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

Leased assets are depreciated over the shorter of the lease term and the asset's useful life.

d) Other operating income

Other operating income comprises receipts authorised by the Department for Constitutional Affairs to be treated as income.

e) Recognition of income

Grant-in-aid received for revenue expenditure is accounted for as income in the year in which it is received and is applied to fund the revenue expenditure of the Commission. Grant-in-aid received and applied for the acquisition of fixed assets is taken to the government grant reserve. An amount equal to the annual depreciation charge on these assets is transferred from the government grant reserve to the income and expenditure account.

f) Financing charges

As required by the Treasury, a charge is made to the income and expenditure account for the notional cost of capital. The notional capital charge, which reflects the cost of financing capital employed, is calculated at 3.5% (2004: 3.5%) of average net assets employed during the year. In accordance with Treasury guidance, the notional charge is reversed out of the income and expenditure account before determining the retained surplus or deficit for the year. As the Commission has net liabilities a negative charge applies.

Legal Services Commission

Notes to the financial statements (continued)

For the year ended 31 March 2005

Note 1 – Statement of accounting policies (continued)

f) Financing charges (continued)

The Commission also receives interest on bank balances. This interest is paid over to the Department for Constitutional Affairs as soon as it is received in accordance with *Government Accounting*. The receipts and payments are shown in 'interest receivable and similar income' and 'interest payable and similar charges' respectively in the income and expenditure account.

g) Operating leases

Operating lease costs are charged to the income and expenditure account as they fall due.

h) Leased assets

Assets held under finance leases are included under tangible fixed assets at their capital value and depreciated over their useful lives. Lease payments consist of capital and interest elements and the interest element is charged to the income and expenditure account.

i) Provisions

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

j) Liquid resources

All liquid resources are in the form of cash and deposits repayable on demand with any financial institution.

k) Accounting for value added tax

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

l) Pensions

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

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

m) Going concern

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

The future financing of the Commission's activities is met by grant-in-aid from the Department for Constitutional Affairs voted by Parliament annually under the relevant Appropriations Act.

Legal Services Commission Notes to the financial statements (continued)

For the year ended 31 March 2005

Note 2 – Grant-in-aid

	2005 £000	2004 £000
Grant-in-aid	95,921	85,479
Grant-in-aid: Crown Court Service Level Agreement	6,340	6,340
Government grant reserve movements		
Fixed asset additions	(5,423)	(3,183)
Depreciation	1,616	1,161
	98,454	89,797

Note 3 – Employment costs

	2005	2004
The average number of full-time equivalent persons (excluding Commission members) employed during the year was as follows:		
Permanent staff	922	725
Secondments In	–	2
Temporary staff	66	68
Senior managers	3	3
Core business	991	798
Permanent staff	586	738
Secondments In	6	–
Temporary staff	43	29
Senior managers	3	1
Reform programme	638	768
Permanent staff	80	77
Secondments In	–	–
Temporary staff	27	18
Senior managers	6	2
Central management and services	113	97
	1,742	1,663

Legal Services Commission

Notes to the financial statements (continued)

For the year ended 31 March 2005

Note 3 – Employment costs (continued)

	2005 £000	2004 £000
Aggregate payroll costs were as follows:		
Salaries and wages	41,567	37,943
Social security costs	4,966	3,225
Other pension costs (note 1l) and note 4)	3,407	2,677
Redundancy costs	–	110
Secondments In	197	69
Temporary staff costs	3,321	2,675
	53,458	46,699
Commission members' costs:		
Remuneration as executives	175	187
Fees to non-executives	331	250
Social security costs	49	43
	555	480
	54,013	47,179

Fees to non-executives include reimbursement of travel expenses from home to office and taxation paid by the Commission on these expenses. The Chief Executive is a member of the Commission and receives no additional remuneration as a Commission member.

Expenditure for the Public Defender Service (PDS) is recorded within the Criminal Defence Service accounts; expenditure of the CLS Direct (formerly eCLS) team is included in the CLS accounts as part of grants and similar. To fully disclose the Commission's staff costs and numbers, a breakdown of the PDS and CLS Direct staff costs is given below. These figures do not form part of the Legal Services Commission financial statements.

PDS

	2005	2004
The average number of full-time equivalent persons employed within the PDS during the year was as follows:		
Permanent staff	80	75
Temporary staff	2	–
Senior managers	–	–
Reform programme	82	75

Legal Services Commission

Notes to the financial statements (continued)

For the year ended 31 March 2005

Note 3 – Employment costs (continued)

	2005 £000	2004 £000
PDS aggregate payroll costs were as follows:		
Salaries and wages	2,400	2,114
Social security costs	206	175
Redundancy costs	–	2
Temporary staff costs	113	55
	2,719	2,346
CLS Direct		
	2005	2004
The average number of full-time equivalent persons employed within the CLS Direct team during the year was as follows:		
Permanent staff	28	15
Temporary staff	1	–
Senior managers	–	–
Core business	29	15
	2005 £000	2004 £000
CLS aggregate payroll costs were as follows:		
Salaries and wages	575	429
Social security costs	44	36
Redundancy costs	–	–
Temporary staff costs	17	–
	636	465

Legal Services Commission Notes to the financial statements (continued)

For the year ended 31 March 2005

Note 3 – Employment costs (continued)

The remuneration for non-executive Commission members is shown below:

	Basis of appointment	Remuneration £000
Philip Ely OBE (Chair to 31 December 2004) <i>Commission member</i>	Part time	57
Jim Shearer OBE (Acting Chair from 1 January 2005 to 31 March 2005) <i>Commission member</i>	Part time	46
Angus Andrew <i>Commission member</i>	Part time	16
David Edmonds CBE <i>Commission member</i>	Part time	32
Anthony Edwards <i>Commission member</i>	Part time	25
Juliet Herzog <i>Commission member</i>	Part time	45
Sheila Hewitt (to 30 September 2004) <i>Commission member</i>	Part time	18
Thomas Jones OBE <i>Commission member</i>	Part time	46
Yvonne Mosquito <i>Commission member</i>	Part time	22
Margaret Richards <i>Commission member</i>	Part time	38
Tina Fahm (from 1 November 2004) <i>Commission member</i>	Part time	7
Dr Lily M Segerman-Peck (from 1 November 2004) <i>Commission member</i>	Part time	7

Although Commission members are appointed with different time commitments, all members, with the exception of the Chair, are paid salaries at the same full-time equivalent rate. The remuneration for Commission members includes reimbursement of travel expenses from home to office and the taxation paid by the Commission on those expenses. Travel expenses vary according to the geographical location, the role and the time commitment of the individual member. Membership of the Legal Services Commission is not a pensionable appointment and does not attract any other benefits, special arrangements or other remuneration.

The amount paid to Philip Ely OBE includes £8,413 in respect of additional days worked before the financial year 2004/05.

Legal Services Commission Notes to the financial statements (continued)

For the year ended 31 March 2005

Note 3 – Employment costs (continued)

The Executive Board was replaced by the Executive Team on 1 June 2004. The Executive Team is the senior executive group of the Commission chaired by the Chief Executive and responsible for the day-to-day management of the organisation.

The salary, pension entitlements and the value of taxable benefits in kind of the senior executive members of the Legal Services Commission were as follows:

	Salary £000	Benefits in kind £000	Real movement in pension and related lump sum at age 60 £000	Total accrued pension at age 60 at 31 March 2005 and related lump sum £000
Clare Dodgson <i>Chief Executive</i>	175	–	41	172
Brian Harvey <i>Deputy Chief Executive and Acting Executive Director of Corporate Services</i>	140	–	2	88
Richard Collins <i>Executive Director of Policy and Planning</i>	114	–	3	30
Mike Jeacock <i>Executive Director of Service Delivery</i>	134	42	1	14
Jonathan Lindley (from 1 June 2004) <i>Executive Director of Service Design</i>	110	17	30	120
Andy Grant (member of the Executive Board to 31 May 2004) <i>Director, London</i>	29	–	3	152
Roger Hamilton (member of the Executive Board to 31 May 2004) <i>Policy and Legal Director</i>	33	–	13	144
Tony Preston (member of the Executive Board to 31 May 2004) <i>Business Systems Director</i>	27	–	1	73

The remuneration for Executive Team members (the Board until 31 May 2004) includes gross salary, bonuses and benefits in kind. The annual performance related bonuses are based on the achievement of targets agreed at the beginning of the year. The process is independently validated by the Commission's Head of Internal Audit and reported on to the Human Resources Committee. Benefits in kind consist of a leased car and travel, subsistence and accommodation.

The real movement in pension and total accrued pension are stated for the whole year, except for Roger Hamilton who retired from the Scheme on 8 October 2004.

Legal Services Commission Notes to the financial statements (continued)

For the year ended 31 March 2005

Note 3 – Employment costs (continued)

	Cash equivalent transfer value at 31 March 2004 £000	Cash equivalent transfer value at 31 March 2005 £000	Real increase in cash equivalent transfer value £000	Employer contribution to pension account including risk benefit cover £000
Clare Dodgson <i>Chief Executive</i>	14	516	149	26
Brian Harvey <i>Deputy Chief Executive and Acting Executive Director of Corporate Services</i>	391	525	28	21
Richard Collins <i>Executive Director of Policy and Planning</i>	41	89	25	17
Mike Jeacock <i>Executive Director of Service Delivery</i>	27	55	13	20
Jonathan Lindley <i>Executive Director of Service Design</i>	3	356	162	16
Andy Grant (member of the Executive Board to 31 May 2004) <i>Director, London</i>	432	608	35	4
Roger Hamilton (member of the Executive Board to 31 May 2004) <i>Policy and Legal Director</i>	355	1,001	614	5
Tony Preston (member of the Executive Board to 31 May 2004) <i>Business Systems Director</i>	209	296	13	4

Clare Dodgson as Chief Executive is also a member of the Commission.

The cash equivalent transfer value and real increase in cash equivalent transfer value are stated for the whole year, except for Roger Hamilton who retired from the Scheme on 8 October 2004.

Note 4 – Pension costs

The Legal Services Commission operates two pension schemes, the No. 4 Scheme and the No. 3 Scheme, providing benefits based on final pensionable salary. The assets of the schemes are held separately from those of the Commission, being invested in funds managed by Legal & General Investment Management Limited. Contributions to the schemes are charged to the income and expenditure account so as to spread the cost of the pensions over employees' working lives with the Commission. The contributions are determined by a qualified actuary on the basis of triennial valuations. The most recent formal valuations were as at 1 April 2004.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the rate set by the Government Actuary's Department in excess of expected future price inflation. The Government Actuary's Department has determined that a discount rate of 2.8% real must be used by 2005/06. This year, the LSC has decided to use a discount rate of 2.8% (2004: 3.5%) to better give a true and fair view of the Schemes' financial positions.

Legal Services Commission Notes to the financial statements (continued)

For the year ended 31 March 2005

Note 4 – Pension costs (continued)

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

A full actuarial valuation of the Scheme was carried out at 1 April 2004 by a qualified independent actuary.

The Commission has contributed 20% of pensionable salary for the period 1 April 2004 to 31 March 2005 (26.1% from 1 April 2005) with additional employer contributions of £0.6m in October 2004 and £5m in March 2005.

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

A full actuarial valuation of the Scheme was carried out at 1 April 2004 by a qualified independent actuary.

The Scheme is closed to new entrants and there are no active members. The Commission has contributed £183,500 in the period 1 April 2004 to 31 March 2005 (2004: £183,500).

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

	No. 4 Scheme March 2005	No. 3 Scheme March 2005	No. 4 Scheme March 2004	No. 3 Scheme March 2004
Discount rate	5.8% p.a.	5.8% p.a.	6.5% p.a.	6.5% p.a.
Rate of increase in salaries	4.5% p.a.	n/a	4.5% p.a.	n/a
Deferred pension increases before retirement	3.0% p.a.	3.0% p.a.	3.0% p.a.	3.0% p.a.
Rate of increase in pensions in payment:				
Post 1997 pension	3.0% p.a.	3.0% p.a.	3.0% p.a.	3.0% p.a.
Pre 1997 pension	3.0% p.a.	3.0% p.a.	3.0% p.a.	3.0% p.a.
Inflation assumption	3.0% p.a.	3.0% p.a.	3.0% p.a.	3.0% p.a.

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

	Expected long-term rate of return at 31 March 2005	Value at 31 March 2005 £000	Expected long-term rate of return at 31 March 2004	Value at 31 March 2004 £000
No. 4 Pension Scheme				
Market value of assets				
Equities	8.0%	59,554	8.0%	51,105
Government bonds and cash	4.7%	47,854	4.8%	35,642
Insured pensioners	5.8%	11,300	6.5%	13,130
Total market value of assets		118,708		99,877
Actuarial value of liabilities		(145,049)		(116,969)
Deficit in the Scheme		(26,341)		(17,092)
Related deferred tax liability		n/a		n/a
Net pension liability		(26,341)		(17,092)

Legal Services Commission Notes to the financial statements (continued)

For the year ended 31 March 2005

Note 4 – Pension costs (continued)

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

	Expected long-term rate of return at 31 March 2005	Value at 31 March 2005 £000	Expected long-term rate of return at 31 March 2004	Value at 31 March 2004 £000
No. 3 Pension Scheme				
Market value of assets				
Equities	8.0%	1,231	8.0%	1,184
Gilts and cash	4.7%	1,452	4.8%	1,331
Insured pensioners	5.8%	1,041	6.5%	1,310
Total market value of assets		3,724		3,825
Actuarial value of liabilities		(3,997)		(4,709)
Deficit in the Scheme		(273)		(884)
Related deferred tax liability		n/a		n/a
Net pension liability		(273)		(884)
	No. 4 Scheme 2005 £000	No. 3 Scheme 2005 £000	No. 4 Scheme 2004 £000	No. 3 Scheme 2004 £000
Pension scheme costs charged to operating costs include:				
Current service cost	2,910	–	2,678	–
Past service charge	497	–	–	–
Total operating charge	3,407	–	2,678	–
Pension scheme interest costs				
Expected return on Scheme assets	6,815	236	5,519	213
Interest on Scheme liabilities	(7,679)	(292)	(6,043)	(257)
Net return	(864)	(56)	(524)	(44)
The following have been recognised in the statement of total recognised gains and losses:				
Actual return less expected return on Scheme assets	1,606	(102)	8,027	313
Experience gains and losses arising on Scheme liabilities	2,754	891	–	–
Changes in assumptions underlying the present value of the Scheme liabilities	(20,831)	(306)	(9,419)	(395)
Actuarial (loss)/gain included in the statement of total recognised gains and losses	(16,471)	483	(1,392)	(82)

Legal Services Commission Notes to the financial statements (continued)

For the year ended 31 March 2005

Note 4 – Pension costs (continued)

The movement in the deficit during the year arose as follows:

	No. 4 Scheme 2005 £000	No. 3 Scheme 2005 £000	No. 4 Scheme 2004 £000	No. 3 Scheme 2004 £000
Deficit in Scheme at beginning of year	(17,092)	(884)	(23,053)	(942)
Current service cost	(2,910)	–	(2,678)	–
Contributions	11,493	184	10,555	184
Past service cost	(497)	–	–	–
Other finance costs	(864)	(56)	(524)	(44)
Actuarial (loss)/gain	(16,471)	483	(1,392)	(82)
Deficit in Scheme at end of year	(26,341)	(273)	(17,092)	(884)

The Schemes' experience gains and losses over the period 1 April 2004 to 31 March 2005 were as follows:

	No. 4 Scheme 2005 £000	No. 3 Scheme 2005 £000	No. 4 Scheme 2004 £000	No. 3 Scheme 2004 £000	No. 4 Scheme 2003 £000	No. 3 Scheme 2003 £000
Difference between the expected and actual return on Scheme assets	1,606	(102)	8,027	313	(14,924)	(114)
Percentage of Scheme assets	1%	-3%	8%	8%	-19%	-4%
Experience gains and losses on Scheme liabilities	2,754	891	–	–	686	(233)
Percentage of the present value of Scheme liabilities	2%	22%	0%	0%	-1%	-5%
Total amount recognised in the statement of total recognised gains and losses	(16,471)	483	(1,392)	(82)	(13,934)	(342)
Percentage of the present value of Scheme liabilities	-11%	12%	-1%	-2%	-14%	-8%

Four persons retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £24,386.

Legal Services Commission Notes to the financial statements (continued)

For the year ended 31 March 2005

Note 5 – Reconciliation of fixed asset additions to capital expenditure

	2005 £000	2004 £000
Fixed asset additions	5,423	3,183
Creditors and accruals	(480)	(4)
Payments to acquire tangible fixed assets	4,943	3,179

Note 6 – Tangible fixed assets

	Fixtures and fittings £000	Furniture and equipment £000	Computer equipment £000	Leased assets £000	Total £000
Cost at 1 April 2004	2,001	1,201	6,654	875	10,731
Additions	2,492	727	2,204	–	5,423
Disposals	(35)	(95)	(1,146)	(875)	(2,151)
Cost at 31 March 2005	4,458	1,833	7,712	–	14,003
Depreciation at 1 April 2004	343	407	5,193	553	6,496
Charged in year	551	279	786	161	1,777
Disposals	(35)	(95)	(1,146)	(714)	(1,990)
Depreciation at 31 March 2005	859	591	4,833	–	6,283
Net book value at 31 March 2005	3,599	1,242	2,879	–	7,720
Net book value at 31 March 2004	1,658	794	1,461	322	4,235

Legal Services Commission Notes to the financial statements (continued)

For the year ended 31 March 2005

Note 7 – Other operating charges

	2005 £000	2004 £000
Rent, rates and insurance	6,275	6,537
Maintenance, heating, lighting and dilapidation charge	1,731	2,859
Office supplies, printing and stationery	2,292	1,687
Postage and telephone	2,877	2,654
Audit fee	113	111
Office machinery expenditure and maintenance	1,149	1,272
Travelling, subsistence and committee members' attendance fees	3,825	3,044
Contribution recovery costs	61	85
Research and development	1,108	793
Computer contractors	1,200	1,257
Managed facility	1,375	1,980
Staff recruitment and retention expenses	2,456	1,370
Conferences and courses	1,189	1,667
Land Registry charges	287	234
Legal and professional charges	3,033	1,675
Publicity	251	133
Security service and contracts	576	555
Ex gratia payments	225	244
Finance lease charges	5	13
Payroll contract	107	101
Crime Higher service charge	6,340	6,340
Loss on disposal of fixed assets	161	17
Release from government grant reserve relating to the disposal of fixed assets	–	(17)
	36,636	34,611

Ex gratia payments are amounts paid to individuals claiming that mistakes were made by the Commission in dealing with their cases. Further disclosure is found in note 25 to these accounts.

Legal Services Commission

Notes to the financial statements (continued)

For the year ended 31 March 2005

Note 8 – Operating surplus

	2005 £000	2004 £000
Operating surplus is stated after charging the following:		
Operating leases	5,248	5,374
Auditor's remuneration and expenses:		
Auditor remuneration	113	111

Auditor remuneration is for statutory audit work only.

Note 9 – Interest receivable and similar income

	2005 £000	2004 £000
Bank interest receivable	1,164	2,879

Note 10 – Interest payable and similar charges

	2005 £000	2004 £000
Bank charges	88	72
Interest payable on additional Employer NI Contributions	790	–
Interest payable to the Department for Constitutional Affairs	734	568
	1,612	640

Note 11 – Other finance costs

	2005 £000	2004 £000
Discount rate change	–	(104)
Discount on provisions	43	28
Pension Scheme No. 4 (note 4)	864	524
Pension Scheme No. 3 (note 4)	56	44
	963	492

Legal Services Commission Notes to the financial statements (continued)

For the year ended 31 March 2005

Note 12 – Gross cash flows

	2005 £000	2004 £000
Returns on investment and servicing of finance		
Interest received	1,136	2,879
Interest paid	(1,667)	(632)
	(531)	2,247
Capital expenditure		
Payments to acquire tangible fixed assets (note 5)	(4,943)	(3,179)
Receipts from sales of tangible fixed assets	–	–
	(4,943)	(3,179)
Financing		
Government grant deferred for additions	5,423	3,183

Note 13 – Analysis of changes in net funds

	At 1 April 2004 £000	Cash flows £000	At 31 March 2005 £000
Cash at bank and in hand	2,632	(1,799)	833

Note 14 – Debtors

	2005 £000	2004 £000
Amounts falling due within one year		
Other debtors	781	175
Amounts owing from CLS Fund	900	–
Prepayments and accrued income	3,582	3,107
	5,263	3,282

Legal Services Commission Notes to the financial statements (continued)

For the year ended 31 March 2005

Note 15 – Creditors

	2005 £000	2004 £000
Amounts falling due within one year		
Other creditors	5	235
Other taxation and social security costs	27	19
Accruals and deferred income	3,354	2,812
	3,386	3,066
Amounts falling due after one year		
Other creditors	–	54

Note 16 – Reserves

	Income and expenditure reserve £000	Government grant reserve £000	Total reserves £000
At 1 April 2004	(18,746)	3,913	(14,833)
Retained surplus for the financial year	4,913	–	4,913
Grant deferred for additions	–	5,423	5,423
Release for depreciation	–	(1,616)	(1,616)
Release for loss on disposals	–	–	–
Actuarial loss recognised	(15,988)	–	(15,988)
At 31 March 2005	(29,821)	7,720	(22,101)

Note 17 – Going concern

The balance sheet at 31 March 2005 shows an excess of liabilities over assets of £22.1m.

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

Legal Services Commission Notes to the financial statements (continued)

For the year ended 31 March 2005

Note 18 – Capital commitments

There are commitments for capital expenditure of £278,846 (2004: £520,935) for which no provision has been made in these financial statements.

Note 19 – Commitments under operating leases

	2005 £000	2004 £000
Annual commitments under operating leases expiring:		
Within one year – land and buildings	375	466
Within one year – other	268	377
Between two to five years – land and buildings	2,045	2,391
Over five years – land and buildings	2,722	2,229
	5,410	5,463

Note 20 – Commitments under finance leases

	2005 £000	2004 £000
Annual commitments under finance leases expiring:		
Within one year	–	224
Between two to five years	–	54
	–	278
Less interest element	–	(5)
	–	273

Legal Services Commission Notes to the financial statements (continued)

For the year ended 31 March 2005

Note 21 – Provision for liabilities and charges

	PAYE £000	Dilapidations £000	Total £000
At 1 April 2004	–	3,886	3,886
Additions and increases to provision	2,227	336	2,563
Amounts used in the period	–	(190)	(190)
Unused amounts reversed in the period	–	(385)	(385)
Finance Charges	–	43	43
At 31 March 2005	2,227	3,690	5,917

Provision is made for estimated dilapidation costs on leasehold buildings. The provision has been estimated with reference to the condition and location of the buildings and discounted at 3.5% (2004: 3.5%). The costs are expected to be incurred between 2005 and 2019 as the leases expire. A dilapidation provision on vacated buildings is maintained until dilapidation negotiations have been finalised.

The PAYE provision relates to a liability for additional Employer National Insurance Contributions, and interest thereon, on committee member fees, for the period from 1990 to 2005. While the Commission is still in negotiation with HM Revenue and Customs on the employment status of the Committee members, we have made full provision for the liability.

Note 22 – Contingent liabilities

At 31 March 2005 the Commission has made full provision for PAYE that relates to a liability for additional Employer NI Contributions, and interest thereon, for the period from 1990 to 2005. Whilst the outcome of the negotiation with HM Revenue and Customs is uncertain, the potential additional liability related to penalty on the late payment could exceed £1.4m.

Note 23 – Related party transactions

The Legal Services Commission is a non-departmental public body sponsored by the Department for Constitutional Affairs. The Department for Constitutional Affairs is regarded as a related party. During the year, the Legal Services Commission had various material transactions with the Department.

During 2004/05, the Legal Services Commission entered into material transactions with related parties as detailed below. All payments are for the period 1 April 2004 to 31 March 2005 unless otherwise stated.

Payments of £1,329 were made to the National Association for the Care and Resettlement of Offenders (NACRO) in respect of conferences and subscription fees. Abi Pointing is an operations manager in the Race and Criminal Justice Unit of NACRO and is a member of the Merseyside Regional Legal Services Committee.

Payments of £5,646 were made to Advice UK in respect of training and conference fees. Keith Bennett is the chair of Advice UK and is a member of the Eastern Regional Legal Services Committee.

Legal Services Commission Notes to the financial statements (continued)

For the year ended 31 March 2005

Note 23 – Related party transactions (continued)

Payments of £47,274 were made to the Citizens Advice London regional office in respect of subscription and conference fees, projects such as Reducing Offending Through Advice and the CLS Development Fund. Patricia Dick is a consultant adviser to London Citizens Advice Bureaux and is a member of the London Regional Legal Services Committee.

Payments of £1,440 were made to Stockport Metropolitan Borough Council in respect of printing of leaflets and strategy reports. Shan Alexander is a councillor with Stockport Metropolitan Borough Council and is a member of the North Western Regional Legal Services Committee.

Note 24 – Financial instruments

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

Liquidity risk

The Commission is financed by grant-in-aid paid from the Department for Constitutional Affairs. As such, it is not exposed to significant liquidity risks.

Interest rate risk

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

Foreign currency risk

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

Financial assets

	Fixed rate financial assets £000	Floating rate financial assets £000	Financial assets on which no interest is received £000	Total £000	Weighted average interest rate %	Weighted average period for which interest rate is fixed Years
Currency						
Sterling	–	833	–	833	4.1%	–
At 31 March 2005	–	833	–	833	4.1%	–
Sterling	–	–	2,632	2,632	–	–
At 31 March 2004	–	–	2,632	2,632	–	–

Legal Services Commission

Notes to the financial statements (continued)

For the year ended 31 March 2005

Note 24 – Financial instruments (continued)

Financial liabilities

	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000	Total £000	Weighted average interest rate %	Weighted average period for which interest rate is fixed Years
Currency						
Sterling	–	–	–	–	–	–
At 31 March 2005	–	–	–	–	–	–
Sterling	273	–	–	273	–	–
At 31 March 2004	273	–	–	273	–	–

Fair values

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

Finance lease obligations

The fair value of finance lease obligations is shown inclusive of interest payable over the full term of each agreement.

Note 25 – Accountability notes

Losses

There were 2 (2004: 2) incidences of cash reported stolen amounting to £296 (2004: £60).

There were 10 (2004: 29) items of equipment reported stolen valued at a cost of £1,100 (2004: £11,085).

Special payments

There were 240 (2004: 195) special payments totalling £225,400 (2004: £243,763).

Community Legal Service Fund and Criminal Defence Service Financial Statements 2004/05

Foreword

Introduction

The Legal Services Commission (the Commission) is a body corporate as set out in Section 1 and Schedule 1 of the Access to Justice Act 1999 (the Act).

Statement of accounts

The statement of accounts of the Community Legal Service (CLS) Fund and the Criminal Defence Service (CDS) for the period 1 April 2004 to 31 March 2005 has been prepared in a form directed by the Secretary of State for Constitutional Affairs with the consent of the Treasury in accordance with paragraph 16 of Schedule 1 to the Act.

The Commission is required to keep separate financial statements for the CLS Fund and the CDS, and for the income and expenditure of the Commission. The financial statements have been prepared on the accruals basis of accounting.

Statutory background

The Legal Services Commission

The Commission is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the Commission's financial position and enable the Commission to ensure that its financial statements comply with the Act and the directions provided by the Secretary of State. The Commission's *Financial Memorandum* requires it to ensure that its accounting and other procedures incorporate adequate safeguards against theft and fraud.

The Act gives the Commission the following duties in relation to the CLS:

- (a) to keep itself informed about the need for, and the provision of, services specified in the Act and about the quality of services provided
- (b) to plan what can be done towards meeting the need for services specified in the Act, and to facilitate planning by others to meet that need
- (c) to establish and maintain a CLS Fund from which it funds services as part of the CLS
- (d) to set priorities for the funding of services as part of the CLS in accordance with directions given by the Secretary of State, taking into account assessment of the need for services
- (e) to set and publish criteria (the Funding Code) according to which decisions about whether to fund services as part of the CLS will be made, and to advise the Secretary of State of any revisions to these criteria
- (f) to aim to obtain the best possible value for money in funding services as part of the CLS.

The Act gives the Commission the following duties in relation to the CDS:

- (a) to fund advice, assistance and representation as part of the CDS in accordance with the Act
- (b) to prepare a code of conduct to be observed by its employees, and the employees of any body it establishes and maintains, in the provision of services as part of the CDS
- (c) to aim to obtain the best possible value for money in funding services as part of the CDS.

The Commission's duties in respect of its administrative activities as required by the Act are outlined in the foreword to the financial statements of the Legal Services Commission.

The Secretary of State and Lord Chancellor

The Secretary of State is accountable to Parliament for the activities and performance of the Commission within the terms of the Act. The Act gives the Secretary of State the following responsibilities in relation to the provision of services:

- (a) to finance the Commission's services as part of the CLS and to meet the costs of any advice, assistance and representation funded by the Commission as part of the CDS
- (b) in deciding the amount to be paid to the Commission for the funding of services by the Commission as part of the CLS, to take account of the need for services as notified to him by the Commission and as specified in the Act
- (c) before making any order relating to the remuneration of barristers or solicitors, to consult the General Council of the Bar and the Law Society and, when making any remuneration order, to have regard to factors specified in the Act
- (d) to lay before each House of Parliament a copy of the approved Funding Code and the code of conduct for employees involved in the provision of services as part of the CDS.

Principal publicly funded activities

Publicly funded legal services are generally aimed at those of small or moderate means providing they can show sufficient cause for such services to be provided. There are two main forms:

- **Community Legal Service**
The Commission funds a range of civil legal services providing Legal Help and Legal Representation. In addition, the Commission funds a range of initiatives to help people access legal services
- **Criminal Defence Service**
The CDS provides advice and legal representation for people involved in criminal investigations or proceedings. During 2004/05, the Commission also funded residual criminal legal aid within the meaning of the Legal Aid Act 1988. This expenditure is reported in operating expenditure in the appended financial statements.

The Commission is concerned largely with funding assistance in the police station and proceedings in the magistrates' courts. The Commission also provides two duty solicitor schemes. One makes advice and representation available for criminal hearings in the magistrates' court; the second provides for legal advice and assistance to people arrested or helping with enquiries at police stations. The Commission also funds services to help people access legal services, that arise from criminal proceedings, matters relating to prison law and reviews of criminal cases.

Review of activities and future developments

A review of the Commission's activities during the year and details of the Commission's performance against agreed measures and targets can be found in the 2004/05 annual report.

Future activities and development plans for legal services which are to be funded by the Commission as part of the CLS and the CDS are contained in the Commission's Corporate Plan, 2005/06 – 2007/08, which will be available on the Commission's website at www.legalservices.gov.uk. Some commitments are set out in the 2004/05 annual report.

CLS Fund and CDS results for the year

The operating expenditure for the year was £1,862m (2003/04: £2,238m). This was split into £709m on the CLS and £1,153m on the CDS. The operating surplus for the year was £466m (2003/04: £151m) split into £428m for the CLS and £38m for the CDS. The net liabilities for the year were £2,120m (2003/04: £2,593m).

Going concern

The balance sheet at 31 March 2005 shows net liabilities of £2,120m. This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from the CLS Fund and CDS' other sources of income, may only be met by future grants from the LSC's sponsoring department, the Department for Constitutional Affairs. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be issued in advance of need.

Grant for 2005/06, taking into account the amounts required to meet the CLS Fund and CDS' liabilities falling due in that year, has already been included in the department's estimates for that year, which have been approved by Parliament, and there is no reason to believe that the department's future sponsorship and future parliamentary approval will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Research and development

During the year, the Commission's Legal Services Research Centre continued its work on several key projects including the English and Welsh Civil and Social Justice Survey (formerly the National Periodic Survey of Justiciable Problems), the impact of debt advice, means assessment, small area information, workforce development, diversity of the Legal Services Commission's supplier base and criminal offending and civil justice. The total research and development costs expended during the year are recorded in the financial statements for the Legal Services Commission.

Commission members and their responsibilities

Details regarding membership and responsibilities of the Legal Services Commission can be found in the foreword to the financial statements for the Legal Services Commission.

Executive Team members and their responsibilities

Details regarding membership and responsibilities of the LSC's Executive Team can be found in the foreword to the financial statements for the Legal Services Commission.

Remuneration

Information on the remuneration of Commission members and members of the Executive Team can be found in note 3 to the Legal Services Commission financial statements.

The Commission's grant and loan-making powers

Under Section 6 (3)(c) of the Act, the Commission may fund services as part of the CLS by making grants or loans to persons or bodies to enable them to provide, or facilitate the provision of, services. During the year, the Commission made grants to law centres and to the Law Centres Federation. It also made grants to independent agencies in accordance with the Secretary of State's specific budgets direction.

In 2004/05, grants of £1.8m were provided from the Commission's Community Legal Service expenditure; of this £1.2m was paid for training and support; £0.5m for service development; £0.1m for not-for-profit management support and £1,000 for interpretation services.

External auditor of the Legal Services Commission

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

Timeliness in paying bills

Except where they were governed by a relevant contract, payments from the CLS Fund and the CDS were exempt from the requirements of the Late Payment of Commercial Debts (Interest) Act 1998.

Receipts

Applicants for funding by the Commission as part of the CLS, and those who were legally aided under the Legal Aid Act 1988, may be required to make a contribution towards their legal costs. Generally, these are paid in instalments. They are shown as contributions by funded clients in the appended financial statements.

When money or property is recovered or preserved during civil proceedings for which a funding (formerly legal aid) certificate has been issued, under Section 9 (6) of the Legal Aid Act 1974, Section 16 (6) of the Legal Aid Act 1988 and Section 10 (7) of the Access to Justice Act 1999, the Legal Services Commission has a first charge on this money or property where the expenditure incurred on legal aid or Legal Help and Representation exceeds any contributions made and costs paid.

In some cases, the enforcement of the charge may be postponed and simple interest added to the amount of the charge outstanding. During 2004/05 simple interest at the rate of 5 per cent per annum was applied. Money obtained by way of the charge is paid over to the Community Legal Service Fund.

Clare Dodgson

Chief Executive
20 June 2005

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

The Secretary of State for Constitutional Affairs is responsible to Parliament for the proper and efficient use of monies voted for the cost of the criminal legal aid programme and grants to the Community Legal Service (CLS) and the Criminal Defence Service (CDS). He exercises these responsibilities through his Department's Principal Accounting Officer, who has designated me – as Chief Executive of the Commission – as the Commission's Accounting Officer.

As the Commission's Accounting Officer, I am answerable to Parliament for the Commission's expenditure. I have personal responsibility for the propriety and regularity of the public finances for which I am answerable; for the keeping of proper accounting records; for preparing financial statements for the accounts of the CLS Fund and the CDS; for prudent and economical administration; for the avoidance of waste and extravagance; and for the efficient and effective use of all the resources in my charge. I have responsibility for good management of public money in relation to the CLS Fund and the grant for CDS expenditure, to ensure that the income and expenditure presented in the accounts have been applied to the purposes intended by Parliament and for ensuring that the Commission's officers fully understand the principles which they should apply to expenditure and the authorities which govern them.

I act in accordance with a range of certain general and specific responsibilities and with other instructions and guidance issued periodically by the Department for Constitutional Affairs, the Treasury and the Cabinet Office – in particular the Treasury's *NDPB Accounting Officer Memorandum* (Annex 8.2 of *Government Accounting*) and the Treasury document *Regularity and Propriety*.

I have the personal duty of signing the Commission's statement of accounts and the further duty of being a witness before the Committee of Public Accounts from time to time to deal with questions arising from the statement of accounts, or from reports made to Parliament by the Comptroller and Auditor General (C&AG) under the National Audit Act 1983.

Under paragraph 16 (1) of Schedule 1 to the Access to Justice Act 1999, the Commission is responsible for keeping the books of account and for preparing each financial year a statement of accounts. For the 2004/05 financial period, the appended financial statements have been prepared in accordance with paragraph 16 (1) of Schedule 1 to the 1999 Act and with the directions given by the Secretary of State under paragraphs 16 (2) and 16 (3) of Schedule 1 to the 1999 Act and with directions made by the Treasury relevant to their preparation. The C&AG will audit the statement of accounts and the Secretary of State will lay before Parliament a copy of the statement of accounts and the C&AG's report on them.

I am also responsible for ensuring that appropriate controls are in place to protect the integrity of the Commission's internet site. This includes ensuring that there are reasonable controls to guard the accuracy and completeness of the annual report document (incorporating the audited 2004/05 Accounts) that is available to the public on the Commission's website.

Clare Dodgson

Chief Executive
20 June 2005

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

I certify that I have audited the appended financial statements of the Legal Services Commission's Community Legal Service Fund and Criminal Defence Service under the Access to Justice Act 1999. These financial statements comprise the Income and Expenditure Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash Flow Statement and the related notes. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies as set out therein.

Respective responsibilities of the Commission, Chief Executive and the Auditor

As described in the Statement of the Legal Services Commission's and Chief Executive's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements under the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of Treasury and for ensuring the regularity of financial transactions. The Commission and the Chief Executive are also responsible for the preparation of the other contents of the annual report. My responsibilities, as independent auditor, are set out in the Access to Justice Act 1999 and are guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of Treasury and whether in all material respects the income and expenditure have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Legal Services Commission has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

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.

I review whether the statement on internal control reflects the Legal Services Commission's compliance with Treasury's guidance *Corporate Governance: Statement on Internal Control*. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Legal Services Commission's corporate governance procedures or its risk and control procedures.

The maintenance and integrity of the LSC's website is the responsibility of the Accounting Officer; the work carried out by the auditors does not involve consideration of these matters and accordingly the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Commission and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Legal Services Commission's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Community Legal Service Fund and Criminal Defence Service at 31 March 2005 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General

27 June 2005

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

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

For the year ended 31 March 2005

	Note	2005 CLS £000	2005 CDS £000	2005 Total £000	2004 CLS £000	2004 CDS £000	2004 Total £000
Grants	2	857,454	1,190,162	2,047,616	905,230	1,179,210	2,084,440
Other operating income	3	279,744	1,168	280,912	301,933	2,492	304,425
		1,137,198	1,191,330	2,328,528	1,207,163	1,181,702	2,388,865
Operating expenditure	4	(708,729)	(1,153,517)	(1,862,246)	(1,071,770)	(1,166,539)	(2,238,309)
Operating surplus	6	428,469	37,813	466,282	135,393	15,163	150,556
Interest receivable and similar income	7	6,573	–	6,573	7,420	–	7,420
Other finance costs	8	–	(3)	(3)	–	(33)	(33)
Cost of capital charge	1f)	63,261	19,230	82,491	73,380	20,153	93,533
Surplus for the year		498,303	57,040	555,343	216,193	35,283	251,476
Reversal of cost of capital charge	1f)	(63,261)	(19,230)	(82,491)	(73,380)	(20,153)	(93,533)
Retained surplus for the year	15	435,042	37,810	472,852	142,813	15,130	157,943

All income and expenditure are derived from continuing operations.

Statement of total recognised gains and losses

For the year ended 31 March 2005

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

The notes on pages 105 to 120 form part of these financial statements.

Community Legal Service Fund and Criminal Defence Service Balance sheet

At 31 March 2005

	Note	2005 CLS £000	2005 CDS £000	2005 Total £000	2004 CLS £000	2004 CDS £000	2004 Total £000
Fixed assets	5	382	341	723	–	396	396
Current assets							
Debtors	11	211,877	1,121	212,998	261,095	1,395	262,490
Cash at bank and in hand	10	30,722	62	30,784	17,971	1,824	19,795
		242,599	1,183	243,782	279,066	3,219	282,285
Creditors: amounts falling due within one year	13	(54,598)	(5,124)	(59,722)	(46,151)	(4,432)	(50,583)
Net current assets/(liabilities)		188,001	(3,941)	184,060	232,915	(1,213)	231,702
Total assets less current liabilities		188,383	(3,600)	184,783	232,915	(817)	232,098
Provisions for liabilities and charges	14	(1,778,120)	(526,945)	(2,305,065)	(2,258,076)	(567,483)	(2,825,559)
		(1,589,737)	(530,545)	(2,120,282)	(2,025,161)	(568,300)	(2,593,461)
Capital and reserves							
Income and expenditure reserve	15	(1,590,119)	(530,886)	(2,121,005)	(2,025,161)	(568,696)	(2,593,857)
Government grant reserve	16	382	341	723	–	396	396
		(1,589,737)	(530,545)	(2,120,282)	(2,025,161)	(568,300)	(2,593,461)

Clare Dodgson

Chief Executive and Accounting Officer
20 June 2005

The notes on pages 105 to 120 form part of these financial statements.

Community Legal Service Fund and Criminal Defence Service Cash flow statement

For the year ended 31 March 2005

	Note	2005 CLS £000	2005 CDS £000	2005 Total £000	2004 CLS £000	2004 CDS £000	2004 Total £000
Reconciliation of operating surplus to net cash outflow							
Operating surplus		428,469	37,813	466,282	135,393	15,163	150,556
Other finance charges		–	(3)	(3)	–	(33)	(33)
Decrease/(increase) in debtors		48,761	274	49,035	12,003	(372)	11,631
Increase/(decrease) in creditors		8,447	692	9,139	(11,743)	2,712	(9,031)
(Decrease) in provisions		(479,956)	(40,538)	(520,494)	(136,983)	(16,722)	(153,705)
Net cash inflow/(outflow) from operating activities		5,721	(1,762)	3,959	(1,330)	748	(582)
Cash flow statement							
Net cash inflow/(outflow) from operating activities		5,721	(1,762)	3,959	(1,330)	748	(582)
Returns on investments and servicing of finance	9	7,030	–	7,030	8,024	–	8,024
Increase/(decrease) in cash		12,751	(1,762)	10,989	6,694	748	7,442
Reconciliation of net cash flow to movement in net debt							
Increase/(decrease) in cash	10	12,751	(1,762)	10,989	6,694	748	7,442
Net funds at 1 April 2004		17,971	1,824	19,795	11,277	1,076	12,353
Net funds at 31 March 2005		30,722	62	30,784	17,971	1,824	19,795

The notes on pages 105 to 120 form part of these financial statements.

Community Legal Service Fund and Criminal Defence Service

Notes to the financial statements

For the year ended 31 March 2005

Note 1 – Statement of accounting policies

These financial statements are prepared in accordance with the Treasury's *Executive Non-Departmental Public Bodies Annual Reports and Accounts Guidance* and applicable accounting standards. They are in a form as directed by the Secretary of State for the Department for Constitutional Affairs (DCA) with the approval of the Treasury.

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

a) Accounting convention

The accounts are prepared under the historical cost convention. This complies with Treasury guidance, except that fixed assets have not been revalued to their current cost. Any differences between current cost and historical cost are not expected to be significant and accordingly a formal revaluation exercise has not been undertaken. Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Companies Act and accounting standards issued by the Accounting Standards Board so far as those requirements are relevant. The accounts are also consistent, where appropriate, with generally accepted accounting practice in the United Kingdom (UK GAAP).

b) Tangible fixed assets

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

c) Depreciation

Depreciation is provided on all fixed assets on a straight line basis to write off the cost of tangible fixed assets over their estimated useful lives as follows:

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

d) Income and expenditure

Income comprises grants received and contributions receivable from funded clients. Income also includes amounts received from funded clients and others for costs and, where appropriate, damages awarded. Expenditure comprises sums payable to legal services suppliers for services provided to funded clients, refunds of contributions to funded clients, costs awarded to other parties and other costs associated with the provision of legal advice and assistance. Sums payable include the estimated value of the work completed by legal services suppliers not yet billed.

e) Recognition of income

Government grant received for revenue expenditure is accounted for as income in the year in which it is received. Grant received and applied for the acquisition of fixed assets is taken to the government grant reserve. An amount equal to the annual depreciation charge on these assets is transferred from the government grant reserve to the income and expenditure account.

Grants from the European Social Fund are accounted for on a receivable basis.

Other grants received are recognised as income when the related expenditure is incurred.

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

For the year ended 31 March 2005

Note 1 – Statement of accounting policies (continued)

f) Cost of capital charge

As required by the Treasury, a charge is made to the income and expenditure account for the notional cost of capital. The notional capital charge, which reflects the cost of financing capital employed, is calculated at 3.5% (2004: 3.5%) of average net assets employed during the year. In accordance with Treasury guidance, the notional charge is reversed out of the income and expenditure account before determining the retained surplus or deficit for the year. As the Commission has net liabilities a negative charge applies.

g) Liquid resources

All liquid resources are in the form of cash and deposits repayable with any financial institution.

h) Provisions

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

Provision is made for estimated dilapidation costs on leasehold buildings. The provision has been estimated with reference to the condition and location of the buildings and discounted at 3.5% (2004: 3.5%).

i) Provision for doubtful debts

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

j) Operating leases

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

k) Accounting for value added tax

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

l) Deposit accounts for funded clients

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

The movement in third party funds is reported in note 22 to these accounts.

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

m) Going concern

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

The future financing of the Commission's liabilities is met by grants from the Department for Constitutional Affairs voted by Parliament annually under the relevant Appropriations Act.

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

For the year ended 31 March 2005

Note 2 – Grants

	2005 CLS £000	2005 CDS £000	2005 Total £000	2004 CLS £000	2004 CDS £000	2004 Total £000
Grant received from the DCA	857,530	1,190,107	2,047,637	905,124	1,179,066	2,084,190
Grants receivable from the European Social Fund	–	–	–	82	–	82
Other grants	306	–	306	24	–	24
Government grant reserve movements						
Fixed asset acquisitions	(407)	(124)	(531)	–	(33)	(33)
Depreciation	25	179	204	–	177	177
	857,454	1,190,162	2,047,616	905,230	1,179,210	2,084,440

Note 3 – Other operating income

	2005 CLS £000	2005 CDS £000	2005 Total £000	2004 CLS £000	2004 CDS £000	2004 Total £000
Civil representation						
Contributions by funded clients	23,595	–	23,595	35,950	–	35,950
Costs	176,128	–	176,128	191,920	–	191,920
Recoveries from damages and statutory charge	79,609	–	79,609	74,016	–	74,016
	279,332	–	279,332	301,886	–	301,886
Civil Legal Help						
Contributions by funded clients	–	–	–	2	–	2
Costs	412	–	412	45	–	45
	412	–	412	47	–	47
Criminal cases						
Costs	–	1	1	–	167	167
Recovery of defence costs orders	–	1,167	1,167	–	2,325	2,325
	–	1,168	1,168	–	2,492	2,492
	279,744	1,168	280,912	301,933	2,492	304,425

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

For the year ended 31 March 2005

Note 4 – Operating expenditure

	2005 CLS £000	2005 CDS £000	2005 Total £000	2004 CLS £000	2004 CDS £000	2004 Total £000
Civil representation						
Solicitors' charges, counsel fees and disbursements	650,400	–	650,400	790,017	–	790,017
Release of provision on dormant cases	(286,037)	–	(286,037)	(92,679)	–	(92,679)
Refund of contributions	5,435	–	5,435	6,393	–	6,393
Costs of successful unassisted parties	1,299	–	1,299	2,447	–	2,447
Miscellaneous	9	–	9	7	–	7
	371,106	–	371,106	706,185	–	706,185
Civil Legal Help						
Solicitors' charges, counsel fees and disbursements	145,285	–	145,285	155,935	–	155,935
Grants and similar	24,610	–	24,610	18,575	–	18,575
	169,895	–	169,895	174,510	–	174,510
Immigration and asylum						
Solicitors' charges, counsel fees and disbursements	83,374	–	83,374	178,949	–	178,949
Public Immigration Legal Services	61	–	61	–	–	–
Grants and similar	274	–	274	671	–	671
	83,709	–	83,709	179,620	–	179,620
Criminal cases						
Solicitors' charges, counsel fees and disbursements – Crime Higher	–	647,270	647,270	–	638,697	638,697
Solicitors' charges, counsel fees and disbursements – Crime Lower	–	491,806	491,806	–	520,415	520,415
Public Defender Service	–	4,255	4,255	–	3,936	3,936
Loss on disposal of fixed assets	–	–	–	–	(1)	(1)
Release from government grant reserve relating to the disposal of fixed assets	–	–	–	–	1	1
Duty solicitor call service	–	2,514	2,514	–	2,535	2,535
	–	1,145,845	1,145,845	–	1,165,583	1,165,583
Bad debts written off and movement in doubtful debt provision (note 12)	84,019	7,672	91,691	11,455	956	12,411
	708,729	1,153,517	1,862,246	1,071,770	1,166,539	2,238,309

Figures for the Public Defender Service (PDS) and for the Public Immigration Legal Service (PILS) include the depreciation charge for capital items. Note 5 shows the PDS and PILS fixed assets along with the amount provided for depreciation in the year.

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

For the year ended 31 March 2005

Note 5 – Tangible fixed assets

CLS	Fixtures and fittings £000	Furniture and equipment £000	Computer equipment £000	Total £000
Cost at 1 April 2004	–	–	–	–
Additions	350	42	15	407
Disposals	–	–	–	–
Cost at 31 March 2005	350	42	15	407
Depreciation at 1 April 2004	–	–	–	–
Charged in year	22	2	1	25
Disposals	–	–	–	–
Depreciation at 31 March 2005	22	2	1	25
Net book value at 31 March 2005	328	40	14	382
Net book value at 31 March 2004	–	–	–	–

All CLS assets relate to the Public Immigration Legal Service.

CDS	Fixtures and fittings £000	Furniture and equipment £000	Computer equipment £000	Total £000
Cost at 1 April 2004	582	44	147	773
Additions	37	16	71	124
Disposals	–	–	(6)	(6)
Cost at 31 March 2005	619	60	212	891
Depreciation at 1 April 2004	273	15	89	377
Charged in year	121	10	48	179
Disposals	–	–	(6)	(6)
Depreciation at 31 March 2005	394	25	131	550
Net book value at 31 March 2005	225	35	81	341
Net book value at 31 March 2004	309	29	58	396

All CDS assets relate to the Public Defender Service.

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

For the year ended 31 March 2005

Note 6 – Operating surplus

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

Note 7 – Interest receivable

	2005 CLS £000	2005 CDS £000	2005 Total £000	2004 CLS £000	2004 CDS £000	2004 Total £000
Interest arising on statutory charges	6,573	–	6,573	7,420	–	7,420

Note 8 – Other finance costs

	2005 CLS £000	2005 CDS £000	2005 Total £000	2004 CLS £000	2004 CDS £000	2004 Total £000
Discount rate change	–	–	–	–	(14)	(14)
Discount on provisions	–	3	3	–	47	47
	–	3	3	–	33	33

Note 9 – Gross cash flows

	2005 CLS £000	2005 CDS £000	2005 Total £000	2004 CLS £000	2004 CDS £000	2004 Total £000
Interest received	7,030	–	7,030	8,024	–	8,024

Note 10 – Analysis of net debt

	CLS £000	CDS £000	Total £000
Cash at bank and in hand			
At 1 April 2004	17,971	1,824	19,795
Cash flows	12,751	(1,762)	10,989
At 31 March 2005	30,722	62	30,784

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

For the year ended 31 March 2005

Note 11 – Debtors

	2005 CLS £000	2005 CDS £000	2005 Total £000	2004 CLS £000	2004 CDS £000	2004 Total £000
Contributions due from funded clients	21,681	–	21,681	29,509	–	29,509
Costs to be recovered	21,494	–	21,494	25,431	–	25,431
Statutory charge	259,672	–	259,672	263,896	–	263,896
Damages	15,226	–	15,226	12,904	–	12,904
Amounts due from suppliers	57,828	7,985	65,813	31,388	330	31,718
Recovery of defence costs orders	–	1,430	1,430	–	1,722	1,722
Accrued income – European Social Fund	–	–	–	82	–	82
Other debtors	549	–	549	–	–	–
Prepayments and other accrued income	–	–	–	200	204	404
	376,450	9,415	385,865	363,410	2,256	365,666
Provision for doubtful debts (note 12)	(164,573)	(8,294)	(172,867)	(102,315)	(861)	(103,176)
	211,877	1,121	212,998	261,095	1,395	262,490

Under the Legal Aid Act 1974, the Legal Aid Act 1988 and the Access to Justice Act 1999, where funded clients have recovered or preserved property rather than obtaining damages, recoverable costs may be secured by a charge against the property. Simple interest of 12% was introduced in the year ended 31 March 1991 and was reduced to 10.5% with effect from 1 January 1992 and further reduced to 8% from 1 September 1993. With effect from 1 April 2002 the interest rate is set annually by reference to the Bank of England's official rate at the time provided the interest rate movement is greater than 1%. The Bank's official rate at 1 April 2002 was 4%, at 1 April 2003 it was 3.75% and at 1 April 2004 it was 4%, consequently the rate of interest on registered statutory charges remained at 5%. The gross amounts secured by a charge against property were:

	2005 CLS £000	2005 CDS £000	2005 Total £000	2004 CLS £000	2004 CDS £000	2004 Total £000
Statutory charge on damages	209,685	–	209,685	213,452	–	213,452
Accrued interest to date	49,987	–	49,987	50,444	–	50,444
	259,672	–	259,672	263,896	–	263,896

Debts secured by a charge may be deferred until the property has been sold. Consequently it is not possible to state what value is due for repayment in more than one year.

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

For the year ended 31 March 2005

Note 12 – Doubtful debt provision

	2005 CLS £000	2005 CDS £000	2005 Total £000	2004 CLS £000	2004 CDS £000	2004 Total £000
At 1 April 2004	102,315	861	103,176	109,325	5	109,330
Debts written off	(21,761)	(239)	(22,000)	(18,465)	(100)	(18,565)
Irrecoverable contributions from funded clients	10,967	93	11,060	17,486	956	18,442
Irrecoverable costs	4,291	–	4,291	(234)	–	(234)
Other irrecoverable items	68,761	7,579	76,340	(5,797)	–	(5,797)
Charge to income and expenditure account	84,019	7,672	91,691	11,455	956	12,411
At 31 March 2005	164,573	8,294	172,867	102,315	861	103,176

Note 13 – Creditors

	2005 CLS £000	2005 CDS £000	2005 Total £000	2004 CLS £000	2004 CDS £000	2004 Total £000
Amounts falling due within one year						
Amounts due to solicitors, counsel and advice agencies	53,029	4,838	57,867	45,757	4,432	50,189
Contribution refunds due to funded clients	310	–	310	269	–	269
Amounts due to the Legal Services Commission	900	–	900	–	–	–
Accruals and deferred income	359	286	645	125	–	125
	54,598	5,124	59,722	46,151	4,432	50,583

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

For the year ended 31 March 2005

Note 14 – Provisions for liabilities and charges

	CLS £000	CDS £000	Total £000
Provision for amounts outstanding on funded cases			
At 1 April 2004	2,258,076	567,186	2,825,262
Charged to income and expenditure account	879,059	1,139,076	2,018,135
Utilised	(1,359,015)	(1,179,617)	(2,538,632)
At 31 March 2005	1,778,120	526,645	2,304,765
Provision for dilapidations			
At 1 April 2004	–	297	297
Charged to income and expenditure account	–	3	3
Utilised	–	–	–
At 31 March 2005	–	300	300
At 31 March 2005	1,778,120	526,945	2,305,065
At 31 March 2004	2,258,076	567,483	2,825,559

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

The dilapidations provision relates to leasehold premises occupied by the Public Defender Service. The costs are expected to be incurred between 2010 and 2019 as the leases expire.

Note 15 – Income and expenditure reserve

	CLS £000	CDS £000	Total £000
At 1 April 2004	(2,025,161)	(568,696)	(2,593,857)
Retained surplus for the year	435,042	37,810	472,852
At 31 March 2005	(1,590,119)	(530,886)	(2,121,005)

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

For the year ended 31 March 2005

Note 16 – Government grant reserve

	CLS £000	CDS £000	Total £000
At 1 April 2004	–	396	396
Grant deferred for additions	407	124	531
Release for depreciation	(25)	(179)	(204)
Release for loss on disposal of fixed assets	–	–	–
At 31 March 2005	382	341	723

Note 17 – Going concern

The balance sheet at 31 March 2005 shows an excess of liabilities over assets of £2,120m.

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

Note 18 – Contingent liabilities

A provision is made for amounts outstanding on funded cases at the balance sheet date. The Commission recognises that there is a continuing obligation to fund cases past the balance sheet date but the amount of the liability is dependent on the future outcome of each case. It is estimated that this liability is in the order of £2,400m (31 March 2004: £2,900m).

Note 19 – Commitments under operating leases

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

	2005 CLS £000	2005 CDS £000	2005 Total £000	2004 CLS £000	2004 CDS £000	2004 Total £000
Operating leases which expire:						
Within one year – land and buildings	–	–	–	–	–	–
Between two to five years – land and buildings	–	–	–	–	–	–
Over five years – land and buildings	–	331	331	–	201	201
	–	331	331	–	201	201

Operating leases shown in this note relate to the Public Defender Service.

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

For the year ended 31 March 2005

Note 20 – Related party transactions

The Legal Services Commission is a non-departmental public body sponsored by the Department for Constitutional Affairs. The Department for Constitutional Affairs is regarded as a related party. During the year, the Legal Services Commission had various material transactions with the Department. The Legal Services Commission also had various material transactions with the Court Service, an agency of the Department for Constitutional Affairs, relating to work provided by the Court Service on behalf of the Commission.

During 2004/05, the Legal Services Commission entered into a number of material transactions with some Commission members and other related parties. These transactions are detailed below. As directed by the Department for Constitutional Affairs, external members of the Commission's Regional Legal Services Committees were required to declare any personal, financial and business interests which constituted material transactions with the Commission. Any immediate connection between the Community Legal Service Fund and the grant for the Criminal Defence Service and these members, or the organisations with which the members are associated, have been declared below.

The figures below relate to transactions in respect of funded work and include payments on account and disbursements which may be payable to third parties and are stated inclusive of VAT, as this is a cost to the Commission. All transactions are for the period 1 April 2004 to 31 March 2005 unless otherwise stated. The transactions do not include payments received indirectly (e.g. counsel fees claimed by the solicitors which they then pay to counsel). The transactions do not reflect annual earnings as they might include fees for work carried out in previous years but not billed until this financial year; they may also exclude fees for work carried out in 2004/05 but not yet billed.

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

Legal Services Commission members and related parties

Angus Andrew	Osbornes is a legal services contracted firm of solicitors to which Angus Andrew was a consultant until 30 October 2004 and is now a non-practising consultant.	£1,060,040
Anthony Edwards	T V Edwards is a legal services contracted firm of solicitors of which Anthony Edwards is the senior partner.	£2,242,888
Juliet Herzog	Silverbeck Rymer is a legal services contracted firm of solicitors in which Juliet Herzog is a partner.	£8,459

Regional Legal Service Committee (RLSC) members and related parties

London RLSC

Patricia Dick	Citizens Advice London region is a legal services contracted company and not-for-profit organisation of which Patricia Dick is a consultant adviser.	£7,744
Lawrence Lupin	Lawrence Lupin Solicitors is a legal services contracted firm of solicitors of which Lawrence Lupin is the principal.	£1,585,124
Peta Sweet (to February 2005)	Law for All is a legal services contracted company and registered charity of which Peta Sweet is a director and trustee.	£1,244,476 1 April 2004 to 7 February 2005

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

For the year ended 31 March 2005

Note 20 – Related party transactions (continued)

South Eastern RLSC

Monica Ford	14 Gray's Inn Square is a barristers' chambers at which Monica Ford is a barrister.	£9,583
Jean Hemmings	(1) Citizens Advice is a national network of information and advice agencies for which Jean Hemmings is a consultant.	£430,044
	(2) Terrence Higgins Trust is a legal services contracted charity of which Jean Hemmings is a consultant.	£363,373

South Western RLSC

Brian Ellis	Mustoe Shorter Solicitors is a legal services contracted firm of solicitors in which Brian Ellis is the practice manager.	£1,049,881
Chris Hart (from June 2004)	Hooper and Wollen Solicitors is a legal services contracted firm of solicitors of which Chris Hart is a managing partner.	£523,062 15 June to 31 March 2005
Monica Carrier (from October 2004)	South Somerset Citizens Advice Bureau is a legal services contracted advice bureau of which Monica Carrier is the manager.	£26,358 1 October 2004 to 31 March 2005

Wales RLSC

Roy Morgan	Morgans Solicitors is a legal services contracted firm of solicitors of which Roy Morgan is the principal.	£1,497,143
Frances Targett	Citizens Advice Cymru comprises a network of Citizens Advice Bureaux throughout Wales. Frances Targett is director, Citizens Advice Cymru.	£213,399
John Williams (from June 2004)	Citizens Advice Cymru comprises a network of Citizens Advice Bureaux throughout Wales, of which John Williams is a committee member.	£213,399 16 June 2004 to 31 March 2005

West Midlands RLSC

Mark Lister	Whatley Recordon is a legal services contracted firm of solicitors in which Mark Lister is a partner.	£338,351
Jeremy Vanes	Wolverhampton Citizens Advice Bureau is a legal services contracted advice bureau at which Jeremy Vanes is the chief executive.	£458,237

North Western RLSC

Shan Alexander	Stockport Metropolitan Borough Council operates the Income Take-Up Campaign in Stockport project, which is part-funded by the Commission through the Partnership Initiative Budget. Shan Alexander is a councillor for Stockport Metropolitan Borough Council.	£44,547
Mohamed Faruk Desai MBE	Preston and Western Lancashire Racial Equality Council is a legal services contracted charity of which Mohamed Faruk Desai is a director.	£132,746

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

For the year ended 31 March 2005

Note 20 – Related party transactions (continued)

North Western RLSC (continued)

Joanne Pickering	Forbes Solicitors is a legal services contracted firm of solicitors in which Joanne Pickering is a franchise representative.	£37,957
Stuart Turner	Lonsdales Solicitors is a legal services contracted firm of solicitors in which Stuart Turner is a solicitor.	£789,301

North East RLSC

Patrick Conway	Durham County Council operates the Integrated Access Via IT project which is part-funded by the Commission through the Partnership Initiative Budget. Patrick Conway is the director of cultural services with Durham County Council.	£76,788
Bernard Pidcock	Blyth Valley Citizens Advice Bureau is a legal services contracted advice bureau of which Bernard Pidcock is the manager.	£107,202
Kathy Webb	Kathy Webb & Co. Solicitors is a legal services contracted firm of solicitors in which Kathy Webb is the senior partner.	£484,295

Yorkshire & Humberside RLSC

Pamela Kenworthy (to March 2005)	Howells Solicitors is a legal services contracted firm of solicitors in which Pamela Kenworthy is a partner and head of the litigation team.	£4,427,981 1 April 2004 to 15 March 2005
Paddy Mayes	Sheffield Citizens Advice Bureau Debt Support Unit is part of a legal services contracted advice bureau of which Paddy Mayes is chair of the board of trustees and was formerly interim manager.	£170,222

East Midlands RLSC

Angela Donen	(1) Bryan & Armstrong Solicitors is a legal services contracted firm of solicitors in which Angela Donen is a partner.	£386,622
	(2) AB Mediation is a legal services contracted mediation supplier in which Angela Donen is the manager.	£194,450
Daphne Wing MBE	Chesterfield Citizens Advice Bureau is a legal services contracted advice bureau of which Daphne Wing is chief executive.	£131,975

Eastern RLSC

Keith Bennett	(1) Advice UK is a national network of information and advice agencies for which Keith Bennett is a board member and was formerly the chair.	£737,213
	(2) Cambridge Independent Advice Centre (CIAC) is a legal services contracted advice centre at which Keith Bennett is chief executive.	£203,299
	(3) Huntingdon Independent Advice Centre is a sub-project of CIAC for which Keith Bennett is project co-ordinator.	£58,267

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

For the year ended 31 March 2005

Note 20 – Related party transactions (continued)

Eastern RLSC (continued)

Joanna Chimes	(1) Hatch Brenner is a legal services contracted firm of solicitors in which Joanna Chimes is a solicitor.	£1,247,736
	(2) Norwich Citizens Advice Bureau is a legal services contracted advice bureau of which Joanna Chimes is a director.	£160,720 18 October 2004 to 31 March 2005
Eric Whitfield	Suffolk County Council operates the Route to Advice project, which is part-funded by the Commission through the Partnership Initiative Budget. Eric Whitfield is the director of legal services with Suffolk County Council.	£9,009

Merseyside RLSC

Sara Murray	(1) James Murray Solicitors is a legal services contracted firm of solicitors in which Sara Murray is the practice director.	£1,330,220
	(2) Sefton Metropolitan Borough Council operates the Sefton CLS Partnership – Sefton Advice Compact Disc Series, which is part-funded by the Commission through the Partnership Initiative Budget. Sara Murray is a councillor for Sefton Metropolitan Borough Council.	£14,910
Paul Witter	Roberts Moore Nicholas Jones Solicitors is a legal services contracted firm of solicitors in which Paul Witter is the practice manager.	£1,741,427

Note 21 – 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. The Commission has limited exposure to risk in relation to its activities but it does utilise financial instruments to manage interest rate movements for damages held on deposit for third parties. Details explaining the risks and how they are managed are provided below under 'interest rate risk'. As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from this disclosure note.

Liquidity risk

The Commission is financed by grant received from the Department for Constitutional Affairs. As such, it is not exposed to significant liquidity risks.

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

For the year ended 31 March 2005

Note 21 – Financial instruments (continued)

Interest rate risk

Money received by the Community Legal Service Fund on behalf of funded clients is held on deposit until the case is concluded. Interest is paid to funded clients by reference to the London Inter Bank Offered Rate (LIBOR). To offset the interest payable, £38.5m of the total deposit account balance is held with Scottish Widows Investment Partnership as short term deposits, certificates of deposit and corporate debt, the balance being met by interest earned in relation to LIBOR. The longest maturity for these instruments is twelve months; funds are available at 24 hours' notice. The rate earned by these instruments may fluctuate and differ from the rate paid out which is based on LIBOR. However, the short maturity period of the instruments limits any risk arising from adverse rates earned.

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

Foreign currency risk

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

Financial liabilities

Currency	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000	Total £000
Sterling	–	–	2,305,065	2,305,065
At 31 March 2005	–	–	2,305,065	2,305,065
Sterling	–	–	2,825,559	2,825,559
At 31 March 2004	–	–	2,825,559	2,825,559

Fair values

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

Cash at bank and in hand

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

Provisions for liabilities and charges

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

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

For the year ended 31 March 2005

Note 22 – Third party assets

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

	31 March 2004 £000	Gross inflows £000	Gross outflows £000	31 March 2005 £000
Third party assets	50,529	58,029	(70,029)	38,529

The Commission receives awarded damages awaiting the final settlement of a case. The assets held at the balance sheet date comprise cash, fixed deposits and certificates of deposit as follows:

	31 March 2005 £000	31 March 2004 £000
Cash	–	6,473
Fixed deposits	539	4,625
Certificates of deposit	37,990	39,431
	38,529	50,529

Note 23 – Accountability notes

Losses statement

There were 33,249 (2004: 23,233) cases involving losses totalling £22.0m (2004: £18.6m) (see note 12).

the 1990s, the number of people in the UK who are aged 65 and over has increased from 10.5 million to 13.5 million, and is projected to reach 17.5 million by 2020 (Office for National Statistics 2000).

There is a growing awareness of the need to address the health care needs of the elderly population. The Department of Health (2000) has set out a strategy for the care of the elderly, which includes a commitment to improve the quality of care for the elderly. This strategy is based on the following principles:

- To ensure that the elderly are treated as individuals, with their own needs and preferences being taken into account.
- To ensure that the elderly are given the opportunity to live in their own homes, wherever possible.
- To ensure that the elderly are given the opportunity to participate in decisions about their care.
- To ensure that the elderly are given the opportunity to live in a community, wherever possible.

The Department of Health (2000) also states that the following are the key areas for action:

- Improving the quality of care for the elderly.
- Improving the access to care for the elderly.
- Improving the support for carers of the elderly.
- Improving the information available to the elderly.

The Department of Health (2000) also states that the following are the key areas for research:

- Improving the quality of care for the elderly.
- Improving the access to care for the elderly.
- Improving the support for carers of the elderly.
- Improving the information available to the elderly.

The Department of Health (2000) also states that the following are the key areas for practice:

- Improving the quality of care for the elderly.
- Improving the access to care for the elderly.
- Improving the support for carers of the elderly.
- Improving the information available to the elderly.

The Department of Health (2000) also states that the following are the key areas for policy:

- Improving the quality of care for the elderly.
- Improving the access to care for the elderly.
- Improving the support for carers of the elderly.
- Improving the information available to the elderly.

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