



Official Solicitor



Public Trustee

The Stewardship Accounts of
the Official Solicitor to the Senior Courts and
of the Public Trustee

For the period 1 April 2015 to 31 March 2016

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Foreword by the Official Solicitor and by the Public Trustee

Context

1. We are separate independent statutory office holders. During the period covered by these accounts, Alastair Pitblado was (and still is) the Official Solicitor and Eddie Bloomfield, who has now retired, was the Public Trustee – hence the use of the plural personal pronoun. The offices of the Official Solicitor to the Senior Courts and of the Public Trustee (OSPT) are our conjoined offices and treated by the Ministry of Justice (MoJ) as an arms length “body” of the MoJ that exists to support our respective work. The working relationships between each of us with the MoJ are set out in Memoranda of Understanding dated 05.05.2010 (OS/MoJ) and 08.01.2010 (PT/MoJ).

Appointment and functions of the Official Solicitor and of the Public Trustee

*The **Official Solicitor** is appointed by the Lord Chancellor under section 90 of the Senior Courts Act 1981. He is an office holder of the Senior Courts and those courts’ own solicitor. His purposes are to prevent injustice to the vulnerable by*

- *acting as last resort litigation friend, and in some cases solicitor, in court proceedings for adults who lack the mental capacity to conduct their own proceedings and for children (other than those who are the subject of child welfare proceedings) who have not been given the court’s permission to conduct the proceedings themselves;*
- *acting as last resort administrator of estates and trustee;*
- *acting as last resort property and affairs deputy in relation to Court of Protection clients; and*
- *accepting appointment, to manage the Child Trust Funds of “looked after” children in England and Wales who have no one available, with parental responsibility, to act for them.¹*

He also

- *as an office holder of the court acts as advocate to the Court providing advice and assistance to the court; and under *Harbin v Masterman*² makes enquires on behalf of the court;*
- *through the International Child Abduction and Contact Unit carries out in England and Wales the operational functions of the Lord Chancellor, who is the Central Authority under The Hague and European Conventions on Child Abduction; and*
- *through the Reciprocal Enforcement of Maintenance Orders Unit carries out in England and Wales the operational functions of the Lord Chancellor who is the Central Authority for international maintenance claims.*

The holder of the office is a quasi-corporation and deemed to be a trust corporation for the purposes of the 1925 property legislation (Law of Property (Amendment) Act 1926 s.3 (1)).

*The **Public Trustee** is appointed by the Lord Chancellor under section 8 of the Public Trustee Act 1906 (“the 1906 Act”). The Public Trustee’s duties are to act on invitation and in line with defined criteria as executor or administrator of estates and as the appointed trustee of settlements. His aim is to provide an effective executor and trustee service of last resort. In addition, the Public Trustee:*

- *is the legal holder of land under Part IV of the First Schedule to the Law of Property Act 1925 (land held in undivided shares) and Part V of the First Schedule to the Law of Property Act 1925 (Common Land);*
- *takes title on death under section 9 of the Administration of Estates Act 1925; and*

¹ See section 3(10) of the Child Trust Funds Act 2004 and regulation 33A of the Child Trust Funds Regulations 2004 (SI 2004/1450).

² [1896] 1 Ch 351.

- *maintains a register of notices affecting land under Section 18 of the Law of Property (Miscellaneous Provisions) Act 1994.*

By virtue of the 1906 Act the Public Trustee is a corporation sole.

2. We, as the Official Solicitor and the Public Trustee, protect vulnerable members of society.

Statement of accounting officers' responsibilities

3. We are appointed as accounting officers by the accounts directions given to us by the MoJ³. As accounting officers we are severally responsible for the stewardship of the third party assets held respectively by us and administered on our behalves by OSPT and the external investment adviser and securities manager. We hold those assets by virtue of our respective functions as trustees, judicial trustee, executors of wills and administrators of estates, guardian to a child's estate, and property and affairs deputy, and solicitor.

4. These annual stewardship accounts are prepared in relation to our respective administration of those assets in accordance with the accounts directions.

5. The direction requires us to ensure that proper financial procedures are followed and that the accounting records are maintained in a suitable form to facilitate the preparation of annual stewardship accounts. The accounts are prepared as described in note 1 to the accounts and must give a true and fair view of the state of affairs of the third party assets for the financial year. We must also ensure that the third party assets are properly safeguarded and managed in accordance with our legal duties as trustees, executors, administrators, deputy and solicitor.

6. These accounts are additional to the individual trust and estate accounts which are prepared in accordance with section 25 of the Administration of Estates Act 1925 and Section 22(4) of the Trustee Act 1925, and (Official Solicitor) deputyship reports required by section 58(4)(f) of the Mental Capacity Act 2005.

7. We have taken all the steps that we ought to have taken to make ourselves aware of any relevant audit information and to establish that our auditors are aware of that information. So far as we are aware, there is no relevant audit information of which the auditors are unaware.

8. We confirm that the stewardship accounts as a whole is fair, balanced and understandable and that we take personal responsibility for the stewardship accounts and the judgements required for determining that it is fair, balanced and understandable

Auditor

9. These accounts have been audited by the Comptroller and Auditor General⁴. The auditor's notional remuneration for the audit of the financial statements of the Official Solicitor to the Senior Courts and of the Public Trustee for 2015/16 was £48,000 (2014/15 £41,000). So far as we, as the accounting officers, are aware, there is no relevant information of which the Auditor is unaware. We have taken all steps that we ought to have taken to make ourselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Annual review of the Official Solicitor's and of the Public Trustee's businesses to which these stewardship accounts apply

10. Our key activities during 2015/16 relating to the third party assets which are subject to these accounts were to

³ The current direction was given on 13 March 2012. This can be found on pages 24-25

⁴ Auditor: The Comptroller and Auditor General, National Audit Office 157-197 Buckingham Palace Road, London SW1W 9SP.

- continue to administer our respective ongoing trusts and estates, by
 - day to day case management
 - carrying out detailed case reviews of all ongoing cases
 - ensuring tax returns were completed and any necessary taxes paid by 31 January
 - regularly reviewing investment strategies for individual trusts⁵ and making investment decisions in accordance with our obligations as trustees, receiving assurance as to the investment performance of our external service provider through
 - its reporting and benchmarking,
 - receiving quarterly assurance from 2 external industry expert advisers regarding decisions made by the external investment manager. Cases are reviewed on a sampling/rolling basis
 - having two additional internal investment reviews during the year – one following the 31 March and the second following 30 September
 - preparing annual accounts or statements, and
 - calculating and taking costs/fees annually
- close and retire from trusts and estates which could properly be either closed and distributed or transferred to another trustee
- apply our last resort criteria in respect of acceptance of new cases
- (Official Solicitor only) manage deputyships and progress the project to transfer deputyship cases to panel deputies through applications to the Court of Protection
- decommission the Trust Accounting and Banking System (TABS) following the successful migration of accounting data to Casper.
- support MoJ Internal Audit (IAD) review of compliance controls across the Client Accounts Team to ensure a robust and proportionate set of controls is in place.
- commence discussions with MoJ procurement to award Charles Stanley a Call-off Contract.

11. We started the 2015/16 year with a combined total of 240 cases which had reduced to 199 by the end of the financial year. We have continued to operate a strict policy of accepting new cases only in the last resort. We have a robust case review system to provide assurance as to the quality and timeliness of casework activities. We have also strengthened existing reconciliations to include a review of all transactions to ensure they are properly identified, classified and accurately recorded. Following the creation by the Court of Protection of its own panel of Deputies the OS can no longer be regarded as a Deputy of last resort and it would therefore be inappropriate for the OS to remain as Deputy in these cases. As a result, we commenced a transfer of all Deputyship cases in 2014/15. There were 26 deputyship cases to be transferred. As at 31 March 2016, orders appointing a new deputy had been received in all 26 cases. Of those 26, 24 cases had been fully transferred to the new deputy during the year. Assets in one of the remaining 2 cases have been transferred to the new Deputy and the case will be closed once our

⁵ We followed the investment strategy determined for each individual trust (see note 10 to the accounts).

costs have been settled. The last remaining case is being prepared for distribution to its beneficiaries.

12. There have been no known incidents of fraud or personal data incidents during the period of these Accounts.

13. The total joint net third party assets we held

- as at 1 April 2015 were £68.5 million. This was made up of cash of £6.8 million; properties and chattels of £7.5 million, securities of £51.8 million, debtors of £3.2 million and creditors of £0.8 million.
- as at 31 March 2016 were £61.1 million. This was made up of cash of £4.6 million; properties and chattels of £7.2 million, securities of £48.8 million, debtors of £1 million and creditors of £0.5 million.

Forward look for my Trusts, Estates and Deputyship work as both the Official Solicitor and as the Public Trustee

14. I will continue to review, adapt and change, where appropriate, the way that I work to meet the changing requirements of, and the budgetary allocations to, my offices. I will focus on best outcomes, ensure that my services and resources are targeted to meet the needs of my mainly vulnerable clients, and seek to achieve best value for money. I will ensure that I am only accepting and, so far as is practical, acting in those cases where my involvement is necessary and meet my 'Last Resort' criteria as both the Official Solicitor and the Public Trustee.

15. The current framework agreement with my external provider of discretionary investment advice and securities management runs until December 2016. Work has commenced with MoJ procurement to award a call-off contract to Charles Stanley on similar terms as the existing Framework Agreement. This is being led by my Head of Trust and Deputy Services, who ran the initial OJEU tender alongside procurement.

16. As the Official Solicitor I will conclude my Deputyship project by finalising the distribution of the remaining 1 case. As a result, the name of the team will change from Trust and Deputy Services to Trust and Estates.

17. I will continue to pursue a lighter touch approach to Stewardship Accounts production in agreement with MoJ and in consultation with NAO.

18. I will continue to explore options for digitising Title on Death notices served on the Public Trustee under section 9 of the Administration of Estates Act 1925 which are currently paper based. Advice will be sought from MoJ Legal regarding the statutory basis for such a change. This project will include options for alternative methods of payment of the registration fee.

19. I will provide protection to the information I hold by managing risks to its integrity and confidentiality in proportionate ways so that our businesses always function effectively.

20. I will adhere to MoJ's commitment to sustainable development and improving its environmental performance.

Alastair Pitblado

The Official Solicitor to the Senior Courts and, since 1 October 2016, the Public Trustee

Date: 2 November 2016

Governance Statement

1. In my role I carry out my duties and exercise my powers in accordance with the law applicable to the particular functions I am carrying out. For example, I act as trustee in accordance with the law of trusts; and so on. I have put in place governance arrangements to ensure that the right decisions are made at the right time, at the right level, and by the right people. I am satisfied that I have the necessary systems and processes in place which enable me to maintain an effective system of internal control throughout my offices and that supports the achievement of my respective policies, aims and objectives, whilst safeguarding third party assets for which I am personally accountable.

2. I am accountable for the performance of my offices. I have in place a Memorandum of Understanding with my sponsoring Department, the MoJ, which sets out how I will work with the MoJ.

3. I am advised in the executive decisions I make by the OSPT Management Advisory Board (MAB), which I chair, which meets monthly and with whom I discuss progress against my annual plans and targets, budgetary matters and issues of concern. At those meetings, and on an ad hoc basis, I exercise oversight of the performance of my joint offices. The terms of reference of the MAB is to assist me in my decision-making and monitoring in respect of:

- The strategy and direction of OSPT
- Finance matters
- People resources
- Performance against budgets and plans
- Risk management
- Compliance with the Corporate Governance Code as required by Managing Public Money

4. I also chair a monthly Finance Sub-committee which helps me to manage my budget at a detailed level. The MAB supports me in ensuring that I quickly identify any emerging risks and put actions in place to manage them, together with regularly reviewing how well risks are being managed by action owners.

5. I am satisfied that the information presented to and by the MAB is sufficient to enable me to make the necessary management decisions. The information presented to the MAB comes from senior managers who work closely with their teams to maintain appropriate monitoring and tracking.

6. I am confident that I have all the necessary and proper risk management and assurance arrangements in place.

Governance framework

7. As Accounting Officer I have responsibility for reviewing the effectiveness of my governance arrangements. There are effective arrangements for reporting and managing any conflicts of interest, but there have been none during the year.

8. I have quarterly accountability review meetings with my MoJ sponsor, supported by the ALB Governance Division. At these meetings, finance and quantitative performance information is made available and discussed. This includes the Finance Report, together with the Business Activity Report which charts quantitative performance across all of my business areas month on month. I attend these meetings, together with my Head of Operations and Head of Finance and, any other key personnel who may be required to attend, depending on the key discussion matters. Additionally, the MoJ Audit and Risk Committee reviews and endorses the annual stewardship accounts prior to its certification by the Comptroller & Auditor General.

9. All governance and risk control measures outlined in the above narrative demonstrate the sound governance that is in place and enable me to be satisfied that such is effective. I adhere in

a proportionate way to the MoJ's governance structure, which has been developed with the following principles in mind: clarity of purpose, clear accountability, oversight, flexibility, light touch and avoidance of duplication. As an independent statutory office holder, I am not bound by these principles, but adhere to them as a matter of good practice.

Risk and Control Framework

10. The main process to identify and evaluate risk to me as Accounting Officer is the MoJ Corporate Risk Management framework which I follow. This highlights the key risks, assesses the impacts and the likelihood of the risk and sets out controls or actions put in place to mitigate those risks.

11. I inform the MoJ about, and discuss with the MoJ, any risks with a significantly high score and discuss mitigations and planning required. Separate Risk Registers are developed for key business changes.

12. My risk register includes the risks relating to the preparation of these accounts. Risks relating to the closure of TABS and risks arising from the Deputyship Transfer project were closed during the year following the successful completion of both projects. None of the business/operational risks materialised with respect to the accounts, the closure of TABS or transfer of the deputyship cases during the 15/16 accounting period.

13. I am satisfied with my governance arrangements, management and risk control systems. I report on them in the Annual Assurance Statement I provide to the Permanent Secretary.

14. My Head of Trust and Deputy Services also acts as my Risk and Compliance Manager and as such carries out monthly checks on controls and formally reports to the Head of Operations each month and to the MAB every quarter. IAD have been fully sighted on the OSPT compliance controls.

15. In October 2015, IAD conducted a review of the key financial controls framework within the client accounts and finance teams. The objective of the audit was to provide management with an opinion on the adequacy, effectiveness and reliability of financial controls, focusing on policies and procedures, compliance checks and improvement/remedial plans. In their subsequent report IAD concluded that the control frameworks within both the client accounts team and cost and finance teams were comprehensive and effective with high levels of compliance. IAD identified some minor areas where controls could be demonstrated more effectively. Such recommendations were rated a priority 3 (the lowest priority rating). By example, recommendations included items such as strengthening job descriptions to include more details around the finance aspects of the role and including the finance committee in the MAB Terms of Reference. I accepted and implemented those recommendations.

16. I continue to embed the concept of risk management throughout my offices and educate staff around best practices.

Risk Management

17. The systems of governance, management and risk control are 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. The systems of governance, management and risk control are based on an ongoing process designed to identify and prioritise the risks to the achievements of my 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 systems of governance, management and risk control were in place for the whole year ending 31st March 2016 and accord with HM Treasury guidance.

18. As trustee, executor and administrator, budget holder and accounting officer, and as deputy, I acknowledge my overall responsibility for the effective management of risk in relation to my

stewardship of the third party assets I hold. I have an appropriate management structure in place to ensure adequate control of risks, which includes the creation and maintenance of a risk register. Individual managers in each business area contribute to the register which is scrutinised by me at the monthly MAB meetings.

19. I have a documented Risk Management Strategy and Policy available to all OSPT staff on my Intranet. This is further supported by a Fraud Policy Statement and Fraud Response Plan.

Conclusion

20. I continue to identify my risks and develop procedures to ensure that adequate systems of governance, management and risk control operate in respect of the Third Party assets I hold and that are administered by the OSPT. I am satisfied with the effectiveness of the systems of governance, management and risk control.

Alastair Pitblado
Official Solicitor to the Senior Courts and, since 1 October 2016, the Public Trustee

Date: 2 November 2016

Table 1: Attendance at Management Advisory Board (MAB) and Finance Sub-committee

The MAB and Finance sub-committee met ten times during the financial year (monthly).

Executive and Non Executive MAB and Finance sub-committee Members	No. of MAB Meetings Attended	No. of Finance Committee Meetings Attended
Alastair Pitblado, Official Solicitor (Co-chair)	9	9
Eddie Bloomfield, Public Trustee (Co-chair)	9	9
Janet Ilett, Deputy Official Solicitor	10	10
John Ingham, Deputy Official Solicitor	6	6
Elaine Brown, Deputy Official Solicitor	8	8
Janet Peel, Head of Operations	10	10
Devone Lawrence, Litigation Services Manager	4	4
Julie Taylor, Head of Trust and Deputy Services	7	7
Michelle Ruskin, Operational Support Manager	9	9
Mark Stevens, Head of Corporate Services to 31 May 2015	2	2
Meetings of the Advisory Board were also attended by:		
Nina Dopson, REMO Team Leader	2	
Jacob Apenyo, Client Accounts Team Leader	2	
Andrea Ballard (AB), Family Manager	1	
Andrea Dye, Senior Manager of Family Litigation	1	
Joanna Collins, Finance Manager	1	
Ben Blair (BB), PAA Lawyer	2	

19 observers from the office attended from time to time on an ad hoc basis.

Independent Auditor's Report to the Official Solicitor and to the Public Trustee

I have audited the stewardship accounts for third party monies held by the Official Solicitor and by the Public Trustee respectively for the year ended 31 March 2016. These comprise the Balance Sheet, the Capital Account, the Income Account, the Portfolio and Investment Income Statement and the related notes. These stewardship accounts have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officers and auditor

As explained more fully in the Statement of the Accounting Officers' Responsibilities, the Accounting Officers are responsible for the preparation of the stewardship accounts and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the stewardship accounts. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the stewardship accounts

An audit involves obtaining evidence about the amounts and disclosures in the stewardship accounts sufficient to give reasonable assurance that the stewardship accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of those funds under the stewardship of the Official Solicitor and of the Public Trustee, have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Official Solicitor and the Public Trustee; and the overall presentation of the stewardship accounts. In addition I read all the financial and non-financial information in the section entitled "Foreword by the Official Solicitor and by the Public Trustee" to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure is incurred in accordance with the intentions of Parliament, and the authorities that govern them.

Opinion on Regularity

In my opinion, in all material respects the expenditure and income of those funds under the stewardship of the Official Solicitor and of the Public Trustee have been applied in accordance with the intentions of Parliament, and the authorities which govern them.

Opinion on Financial Statements

In my opinion:

- the stewardship accounts give a true and fair view of the financial position of the funds under the stewardship of the Official Solicitor and of the Public Trustee as at 31 March 2016 and of the movement in net assets, the capital account and the income account for the year ended 31 March 2016 relating to those funds; and

- the financial statements have been properly prepared in accordance with the accounts direction issued by the Ministry of Justice.

Opinion on other matters

In my opinion, the information given in the Foreword by the Official Solicitor and by the Public Trustee for the financial year for which the stewardship accounts are prepared is consistent with the stewardship accounts.

Matters on which I report by exception

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

- adequate accounting records have not been kept; or
- the stewardship accounts are not in agreement with the accounting records; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Steven Corbishley
Director

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

Date: 1 December 2016

Balance Sheet as at 31 March 2016

	Notes	2015/16	2014/15
		<u>£'000</u>	<u>£'000</u>
Assets:			
Property	3	7,032	7,331
Securities		48,780	51,772
Chattels		141	151
Debtors	4	1,068	3,236
Cash and Bank balances	5	4,614	6,800
		<u>61,635</u>	<u>69,290</u>
Liabilities:			
Creditors	6	(520)	(830)
		<u>61,115</u>	<u>68,460</u>
Representing			
Capital Account		59,171	66,539
Accumulation Account		1,944	1,921
		<u>61,115</u>	<u>68,460</u>

The notes on pages 17 to 23 form part of these accounts.

Accounting Officer

Alastair Pitblado
Official Solicitor to the Senior Courts and, since 1 October 2016, the Public Trustee

Date: 2 November 2016

Capital Account for the year ended 31 March 2016

	Notes	2015/16	2014/15
		£'000	£'000
Balance at 1 April		66,539	74,331
Add:			
Unrealised revaluation movement		(2,762)	(971)
Probate cost adjustments		639	571
Surplus on disposals		403	848
Capital introduced from new clients		537	1,700
Net transfer from Income Account		516	447
		<u>65,872</u>	<u>76,926</u>
Less:			
Taxation payable		(686)	(133)
Investment management charges		(290)	(321)
Professional Fees		(52)	(136)
OSPT bills and fees		(416)	(477)
Distributions		(5,229)	(9,236)
Other expenditure		(28)	(84)
		<u>(5,601)</u>	<u>(10,287)</u>
Balance at 31 March		<u>59,171</u>	<u>66,539</u>

The notes on pages 17 to 23 form part of these accounts.

Income Account for the year ended 31 March 2016

	Notes	2015/16	2014/15
		£'000	£'000
Income			
Rental income		4	7
Investment income		1,569	1,635
Interest income		24	35
Other income		305	667
		<u>1,902</u>	<u>2,344</u>
Expenses:			
Taxation		(424)	(511)
Investment management charges		-	(24)
Professional Fees		(1)	(4)
OSPT bills and fees		-	(37)
Net transfer to Capital Account		(482)	(447)
		<u>(907)</u>	<u>(1,023)</u>
Balance Transferred to Accumulation Account		<u>995</u>	<u>1,321</u>
Accumulation Account			
Balance at 1 April		1,921	2,586
Add:			
Income for the year		995	1,321
		<u>2,916</u>	<u>3,907</u>
Less			
Distributions		(972)	(1,986)
Balance at 31 March taken to Balance Sheet		<u>1,944</u>	<u>1,921</u>

The notes on pages 17 to 23 form part of these accounts.

Portfolio and Investment Income Statement

	Profit (Loss) on disposal Y.E 31-3-16 £'000	Net Income Y.E 31-3-16 £'000	Market Value At 31-3-16 £'000	Market Value At 31-3-15 £'000
UK				
Fixed Interest	11	39	1,942	2,258
Listed Equities & Funds	(94)	959	17,834	24,361
Common Investment Schemes	311	522	24,278	19,287
Unlisted equities	-	-	-	-
Non-UK				
Listed Equities	48	49	4,726	5,866
Unlisted Equities	-	-	-	-
Total Securities	<u>276</u>	<u>1,569</u>	<u>48,780</u>	<u>51,772</u>

The notes on pages 17 to 23 form part of these accounts.

Notes to the Financial Statements

1. Accounting Policies

Basis of Accounting

The accounts are prepared under the accounting practices commonly applied by legal and accountancy practitioners in England and Wales to the accounts of individual trusts and estates, under applicable law ('common accounting practice for trusts and estates') and in accordance with the Ministry of Justice Accounts Direction on stewardship accounts of third party monies.

The accounts are prepared under the historical cost convention, modified by revaluation of property to fair value and securities to market value at the balance sheet date.

The Balance Sheet of the accounts represents the aggregated value of all client assets under OSPT stewardship. Increases or decreases in the value of client funds reported in the Balance Sheet arise through transactions related either to:

- a) original client capital; or
- b) income generated by that capital (e.g. dividends).

In the majority of trusts and estates the beneficiary is entitled to either the capital or the income from the trust or estate. It is therefore important to segregate for client account purposes funds that relate to original capital and funds that arise out of subsequent income generation. For this reason the stewardship accounts include the following statements.

i) Capital Account. This represents the total capital element of client funds and is therefore presented as a reserve in the Balance Sheet. The Capital Account is then further analysed to present capital newly introduced from clients; gains and losses on capital transactions (e.g. sales of shares); and distributions to trust and estate beneficiaries; and fees and charges which are properly chargeable against capital.

ii) Income Account. This shows the income generated by client funds during the year (e.g. through the receipt of dividends on shares) net of expenses properly chargeable against income. The Income Account is roughly the equivalent of a profit and loss account for client funds and is therefore presented as a separate statement, with the net amount being transferred each year to the Accumulation Account.

iii) Accumulation Account. This represents the accumulated total of the net income received on client funds, after the deduction of distributions to beneficiaries which are made out of income. Where beneficiaries are only entitled to receive distributions from income, they must be made out of the funds represented by this account. Together with the Capital Account, the Accumulation Account represents an analysis of the aggregated value of client funds which is presented in the Balance Sheet.

Property

Freehold and leasehold properties are shown at fair value. This is based on indexation using Land Registry Indices. The net impact of unrealised surpluses and deficits on revaluation are disclosed separately in the capital account. Surpluses and deficits realised on disposal of assets are recognised in the capital account.

Securities

Investments in securities are carried out on an arms-length basis following best practice standards. Securities are stated in the accounts at the market value on the balance sheet date. The net impact of unrealised surpluses and deficits on revaluation are taken to the revaluation reserve and disclosed separately in the capital account. Surpluses and deficits realised on disposal of assets are recognised in the capital account.

Basis of Valuation: Other Assets – Chattels

Client assets other than cash, real property and securities are included at original cost or probate value. In our judgement these assets will not be marketed in the near future, therefore market value will not be appropriate.

Foreign Currencies

All transactions in foreign currencies are converted into sterling at the rates of exchange ruling at the transaction date. Foreign currency assets and liabilities at the end of the accounting period are translated at the exchange rate at close of business on the balance sheet date.

Recognition of Capital and Income

New client capital is recognised on receipt. Dividends and interest from investments in securities that are not mandated directly to beneficiaries are credited to the Income Account when received. Following the Transfer of securities and investments to Charles Stanley, there is only one case where dividends and interest from investments are directly mandated.

Interest received from bank deposits is credited to the Income Account when received.

Other Income comprises of royalties, annuities, severe disability allowance, disability living allowance, income benefits and pensions. These are credited to the Income Account when received

Fees and Charges

Fees due to the Public Trustee are administered in accordance with the Public Trustee (Fees) Order 2008 (SI 2008/611). Provision is made in the balance sheet for Public Trustee Administration fees. Withdrawal fees, income collection fees and special fees are drawn from cash as they arise. Other expenses incurred with regard to maintenance of Trust or Estates assets are charged against Capital or Income on a per-case basis in accordance with the terms of the individual Trust and the relevant law regarding the allocation of expenses between income and capital.

Bills due to the Official Solicitor are administered in accordance with the present Estate Fees Collection Policy. Provision is made in the balance sheet for bills which have been quantified but not yet drawn from the case. Any other expenses incurred with regard to maintenance of the assets of any of the Official Solicitor's trusts or estates are charged against Capital or Income on a per-case basis in accordance with the terms of the individual Trust and the relevant law regarding the allocation of expenses between income and capital.

Taxation

Provision is made in the capital or income accounts as applicable for Income Tax, Rate Applicable to Trusts, Inheritance Tax, Accrued Income Scheme and Schedule A Tax at the current rates. Provision is made in the capital account where capital gains and Inheritance Tax liabilities are known; otherwise charged to the capital account as cash is paid.

	31 March 2016	31 March 2015
	£'000	£'000
Tax charge to capital account	686	133
Tax charge to income account	424	511
Total at 31 March	<u>1,110</u>	<u>644</u>

Distributions

The OS and the PT each divests himself of, and distributes, trust assets. This happens when:

- cash or assets are transferred to a beneficiary as part of a distribution pursuant to the terms of the trust or estate or
- one or other of them retires as trustee in favour of an alternative trustee, in accordance with their last resort policy or
- the trust has terminated or
- one or other of them has completed the winding up of an estate.

Assets distributed comprise shares/stocks, properties and cash as well as payments made to and on behalf of beneficiaries in ongoing cases. These are recognised in capital and/or income accounts at the point of transfer/payment in accordance with terms of the trust deed and the law applicable to the case.

	31 March 2016	31 March 2015
	£'000	£'000
Capital distributions	5,229	9,236
Income distributions	972	1,986
Total at 31 March	<u>6,201</u>	<u>11,222</u>

2. Segmentation Analysis

The major categories of net assets at the Balance Sheet date are as follows:

	Estates	Trusts	Litigation	Total at 31 March 2016	Total at 31 March 2015
	£'000	£'000	£'000	£'000	£'000
Assets:					
Property	4,344	2,688	-	7,032	7,331
Securities	45,342	3,438	-	48,780	51,772
Chattels	76	65	-	141	151
Debtors	927	141	-	1,068	3,236
Cash and Bank Balances	3,831	706	77	4,614	6,800
Liabilities:					
Creditors	(293)	(227)	-	(520)	(830)
Net Assets	54,227	6,811	77	61,115	68,460

3. Property

	Freehold	Leasehold	Total at 31 March 2016
	£'000	£'000	£'000
Balance at 1 April 2015	6,029	1,302	7,331
Introduced from clients	290	-	290
Distributed to clients	(1,130)	-	(1,130)
Revaluation and indexation	345	196	541
Balance at 31 March 2016	5,534	1,498	7,032

At 31 March 2016 the OSPT managed 31 (38 as at 31st March 2015) properties on behalf of client trusts.

4. Debtors

	31 March 2016	31 March 2015
	£'000	£'000
Loans receivable and accrued income	2	60
Cash held by Brokers	1,032	2,998
Cash held by Agents	34	178
	1,068	3,236

5. Cash and Bank balances

	31 March 2016	31 March 2015
	£'000	£'000
Cash at Bank	4,104	5,871
Cash on long term deposit at other institutions	510	929
	<u>4,614</u>	<u>6,800</u>

6. Creditors

	31 March 2016	31 March 2015
	£'000	£'000
Bills payable to the Official Solicitor	79	104
Fees payable to the Public Trustee	138	131
Other creditors	303	595
	<u>520</u>	<u>830</u>

Other creditors comprises accrued tax liabilities, discretionary loans from the Ministry of Justice and accrued expenses

7. Contingent Liabilities

There were no contingent liabilities at the balance sheet date.

8. Post Balance Sheet Events

Post balance sheet events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the certificate of the Comptroller and Auditor General.

The result of the referendum held on 23 June 2016 was in favour of the UK leaving the European Union. This is a non adjusting event. A reasonable estimate of the financial effect of this event cannot be made.

The financial statements were approved by the Accounting Officer for issue on the date they were certified by the Comptroller and Auditor General.

9. Related Party Transactions

The Official Solicitor and the Public Trustee are independent statutory officers sponsored by the MoJ and as such are related parties. During the year the offices of the Official Solicitor and the Public Trustee had a number of material transactions with the MoJ and other bodies under the control of the MoJ, consistent with its sponsorship arrangements.

The Public Trustee, Eddie Bloomfield, also serves as the Deputy Accountant General, and as such is responsible for overseeing the administration of Funds in Court on behalf of the Accountant General.

The Official Solicitor provides a last resort trustee service to a number of beneficiaries whose assets include MoJ equity investments managed by Legal & General on behalf of the Accountant General. The market value of those securities at 31 March 2016 was £3.6 million. During the year, there were disposals of MoJ equity investments of £1.01 million. There were no additions.

Other than the related party transactions disclosed above, none of the senior management staff or other related party has undertaken any material transactions with the client assets during the period.

10. Financial Instruments

The investment of the funds of each trust or estate are designed to further the objectives of the relevant trust or estate. The funds of each trust are invested on a discretionary basis in line with the investment objectives and risk parameters agreed for each trust or estate between Charles Stanley and the Official Solicitor or the Public Trustee and recorded the individual Trustee's Policy Statement for the trust or estate.

Market price risk

Market price risk is the risk that the value of the securities will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises mainly from uncertainty about future prices of financial instruments held by the Official Solicitor or the Public Trustee as trustee, executor or administrator. The investment portfolio is exposed to market price fluctuations, which are monitored by Charles Stanley to whom we have outsourced our investment advice and securities management. The funds of each trust are invested on a discretionary basis in line, where possible, with the investment objectives and risk parameters agreed between Charles Stanley and the Official Solicitor or Public Trustee and the Trustee's Policy Statement.

Foreign currency risk

The Trusts and Estates of the Official Solicitor and of the Public Trustee are rarely exposed to foreign currencies. They do not hold any foreign currency cash. Securities denominated in foreign currencies are held in their base currencies.

Interest rate risk

Interest rate risk is the risk that interest rate movements on assets and liabilities are not aligned, resulting in a financial loss. The OSPT has negotiated competitive rates with its Bank and manages liquidity to optimise return.

Liquidity risk

Each Trust and Estates case is closely monitored to ensure there is asset and liability matching and overdrafts are prevented. Where there will be an inability to pay future creditors, measures are taken to achieve a distribution of the case in consultation with stakeholders or the Official Solicitor or the Public Trustee will provide interim disbursements in circumstances where they will be fully recoverable.

Credit risk

Certain transactions in securities that the Official Solicitor or the Public Trustee enters into expose them to the risk that the counter party will not deliver the investment for a purchase, or cash for a sale after the Official Solicitor or the Public Trustee has fulfilled their responsibilities. The OSPT only buys and sells investments through MoJ Approved Panel Brokers and Fund Managers. In addition, the MoJ Strategic Investment Board in 2005 set limits to the exposure to any individual broker that may exist at any time and changes in brokers' financial ratings are reviewed.

Ministry of Justice Accounts Direction on Stewardship Accounts of Third Party Assets under the care of the Official Solicitor and Public Trustee

The MoJ gives the following Accounts Direction:

1. The Official Solicitor and the Public Trustee (OSPT), as Accounting Officers for stewardship of third party assets under their care, shall prepare for each financial year stewardship accounts that aggregate the individual trusts and estates.
2. The accounts shall be prepared under the accounting practices commonly applied by legal and accountancy practitioners in England and Wales to the accounts of individual trusts and estates, under applicable law ('common accounting practice for trusts and estates'). These principles, which apply directly to the preparation of individual trust and estates accounts prepared by the OSPT, should be applied where practical to the stewardship accounts.
3. In addition to following these principles, the Accounting Officers should be mindful of their responsibilities under *Managing Public Money* and should include any additional narrative required by HM Treasury in associated guidance relevant to these responsibilities.
4. Accordingly, the accounts shall give a true and fair view of:
 - I. the financial position of the third party assets at the period end ('Balance Sheet');
 - II. movements in trust or estate capital ('capital account'), including relevant adjustments including for gains and losses on the realisation of assets, in addition to deductions for taxation, expenses and distributions properly chargeable to capital; and
 - III. the net income during the period after taxation, expenses and distributions properly chargeable to income ('income account').
5. In addition to the primary financial statements described above, the accounts shall include:
 - IV. a Foreword;
 - V. a statement on the responsibilities of the OSPT as Accounting Officers;
 - VI. a statement on governance, which should comply with the latest HM Treasury guidance in all applicable respects; and
 - VII. the notes to the accounts.
6. The Foreword shall include among other items:
 - VIII. a statement that the accounts have been prepared in accordance with directions given by the MoJ including such information that may be necessary to present a true and fair view; and
 - IX. relevant information in respect of the statutory background of the OSPT, developments during the year, including any incidents of fraud or personal data loss, and a forward look.
7. The Notes shall include as a minimum:
 - X. the accounting policies;

- XI. an analysis of material items within the Accounts;
- XII. an analysis of how assets and liabilities are segmented between the principal activities of the OSPT (e.g. the administration of trusts and estates respectively);
- XIII. related party transactions relating to the OSPT, following the disclosure requirements of latest HM Treasury guidance;
- XIV. a Portfolio and Investment Statement showing the movements on securities during the year by type and any difference between book and market values; and
- XV. a description of the investment strategy for third party assets and an assessment of the risks attaching to current investments, with disclosure on risks following the requirements of latest HM Treasury guidance; and
- XVI. any further notes required to give a true and fair view in accordance with common accounting practice for trusts and estates, or to comply with the latest HM Treasury guidance for disclosures regarding accountability, for instance on governance, losses and special payments.

General

- 8. The Accounting Officers will employ best endeavours to complete the stewardship accounts within 6 months of the year-end. This timetable will include sufficient time for the Comptroller & Auditor General to complete the audit.
- 9. The Accounting Officers will submit the stewardship accounts to the MoJ and arrange for them to be published on either their own or the MoJ's website.

Signed:

Ann Beasley

MoJ Director General, Finance and Corporate Services

Date: 13 March 2012