



ANNUAL REPORT 2005/06

Helping more people
deal with their problems

Helping more people deal with their problems

In 2005/06 the Legal Services Commission helped more people with civil legal aid than at any point since 2000.

Together with criminal legal aid we funded over 160,000 more acts of assistance than last year, which means in total our legal aid funding helped more than 2 million people.








Legal Services Commission Annual Report 2005/06

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.

Ordered by the House of Commons to be printed 20 July 2006.



Contents

	Chair's review: Helping more people	2
	About the Legal Services Commission	4
	Corporate Priority 1: Ensuring legal aid clients have access to services	12
	Corporate Priority 2: Working with high quality service providers	24
	Corporate Priority 3: Delivering an affordable scheme	30
	Corporate Priority 4: Transforming our organisation	36
	Financial reports	40

Chair's review: Helping more people



“This year, through dedicated service providers, we helped more people with civil legal aid than at any point since 2000.”

I joined the Legal Services Commission (LSC) in April 2005. I was attracted to the role because I believe that legal aid is one of the cornerstones of a civilised and inclusive society and an essential part of the welfare state.

The work of the LSC is fundamental to social and legal justice. The duties of the LSC, as set out in the Access to Justice Act 1999, are to maintain and develop the Community Legal Service (CLS) and the Criminal Defence Service (CDS). Around £2 billion is spent every year ensuring that people, including some of the most vulnerable in society, get legal help and access to justice.

Upon joining, I found a rapidly evolving organisation. The last five years have brought about enormous change as the LSC moved from simply processing and paying bills to actively promoting the delivery of high

quality legal services. I have been particularly impressed by the amount of positive work taking place and the commitment of LSC staff.

In line with the reform programme, the Commission Board has developed. In October 2005, Commission membership increased to 12 with the addition of Dr David Wolfe who joined as an advocacy specialist.

There have also been changes to the Commission's committee structure. As a consequence of the CLS Strategy, we disbanded the Regional Legal Services Committees in April 2006. I would like to take this opportunity to thank all the people who served as members of these Committees over the past decade.

We were sad to announce the departure of our Chief Executive, Clare Dodgson, in May 2006. Clare suffered a serious fall in May 2005 and was unable to return to work. I join with the Commission as a whole in wishing her a speedy recovery. Clare joined the organisation in June 2003 and took the LSC through key organisational changes that formed the platform for our reform programme.

While a new Chief Executive is recruited, Brian Harvey will continue in the role of Acting Chief Executive, which he took up in Clare's absence. I was delighted that Brian was awarded an OBE in the Queen's Birthday honours list for his outstanding contribution during his 17 years with the LSC and its predecessor.

It has been a challenging year but there have been many successes, most importantly an increase in the number of clients helped and a development of initiatives essential to the legal aid reform programme. In surpassing our 650,000 acts of assistance target, we helped more people than at any point since the CLS was created in 2000.

The total number of acts of advice and assistance delivered through the CLS in 2005/06 was 708,510 excluding immigration and asylum. We were particularly pleased that the greatest area of increase was in face-to-face advice – there were more than 55,000 extra acts of face-to-face assistance during 2005/06. We exceeded a number of our targets, but this one particularly demonstrates how we are making a real difference to legal aid clients through the work of service providers.

At the heart of our reform programme lies the belief that legal aid is essential to:

- safeguard fundamental rights in the face of action by public authorities and to ensure people receive a fair trial
- help people deal with their problems. Research has shown that people do not have 'legal' problems, they simply have problems to which the law can offer some solution. Legal aid can help address the issues that contribute to people's social exclusion such as debt or welfare benefits
- assist people in accessing the legal system and court process where this is the only, or most appropriate, route to resolve private law disputes - for example, divorce cases where mediation has not reached a solution.

Key developments during 2005/06 have been in relation to:

- what legal aid services to buy – the CLS Strategy focuses on access and sets out how we want to encourage providers to deliver the right services to meet clients' needs. Strategies for crime and children and family services will follow in 2006/07
- who to buy legal aid services from – the Preferred Supplier consultation focuses on quality and sets out the aspirations for our relationship with service providers
- how to buy legal aid services – Lord Carter of Coles' review of legal aid procurement provides a framework for how we will pay for legal services.

None of these developments would be possible without the dedication of legal aid solicitors and not-for-profit organisations. Developing our partnership with advice providers has been one of the key areas of our work over the last year, culminating in the launch of the Preferred Supplier consultation in March 2006. The consultation paper sets out our partnership strategy for the future and I was delighted to see many positive responses from our stakeholders. More information on the Preferred Supplier scheme can be found on page 26.

Alongside developing our relationship with individual service providers, we are keen to build a more positive relationship with our major stakeholder groups. We recognise that representative bodies work extremely hard for their members and are as firmly committed to providing a high quality legal aid system as we are. I hope that 2006/07 will see an increased acknowledgment of our shared objectives, albeit from different perspectives, and more robust confidence in one another.

Alongside our work on the Preferred Supplier scheme was our programme of work to support and develop the CLS. In March 2006 we launched the CLS Strategy with the aim of setting out the next steps in how we intend

to improve public access to high quality information, advice and representation. The strategy has been widely welcomed and represents the next stage in the development of the CLS. Further information on the CLS Strategy can be found on page 15.

During 2005/06 we worked closely with the Welsh Assembly Government to develop our structure and accountability for legal services in Wales. We launched a consultation paper on our proposed Welsh Language Scheme, following close liaison with the Welsh Language Board. In the conduct of public business in Wales, the Commission aims to treat the English and Welsh languages equally.

The strains upon legal aid funding have been well documented, with the legal aid budget having increased from £1.5 billion in 1997 to over £2 billion today, mostly due to increased costs in criminal legal aid. There is a funding shortfall that is expected to continue into future years unless we take action as soon as possible to achieve a sustainable legal aid scheme.

One of our key workstreams for 2005/06 was to work with Lord Carter and his team to develop an affordable, sustainable way of procuring legal services. More information on the Carter review can be found on page 32.

In addition to developing a sustainable legal aid scheme, we are also looking at all opportunities to increase efficiency and deliver savings within our own administration budget.

Alongside our programme of reform, we also had success with our day-to-day operations, including the best results to date in our service provider survey and even better customer service. In our most recent provider survey over 90% of respondents rated our staff as 'helpful'.

There is little doubt that legal aid has changed dramatically over the last few years and there has been criticism in the past that the LSC was not clear about its future strategy. I believe that much work has been done over the last 12 months to further clarify our Vision and clearly set our way for the coming years as we continue with the legal aid reform programme. It is a crucial time in legal aid development and I look forward to being at the forefront of it.



Sir Michael Richard
Chair, Legal Services Commission
July 2006



About the Legal Services Commission

The Legal Services Commission looks after the provision of legal aid in England and Wales. We are also responsible for ensuring that people get the information, advice and legal help they need to deal with a wide range of problems

“The core purpose of the LSC is to help people in need to receive high quality legal advice, assistance and representation.”

The Legal Services Commission (LSC) works in partnership with solicitors and not-for-profit organisations to provide information, advice and legal representation to people in need. Research has shown that legal aid clients are often vulnerable and socially excluded people who may have a variety of problems, such as debt, housing or welfare benefits, or issues related to crime. Our job is to ensure these people can access the help they need to address their problems.

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

Community
Legal Service



Criminal
Defence Service



The Community Legal Service (CLS)

The Community Legal Service is a network of organisations which funds, provides and promotes civil legal services, from general information to advice and representation.

The LSC has a responsibility to develop and maintain the CLS. Other key players include local authorities and central government departments, the solicitor and advice sectors, and clients – those who actually receive services.

The Criminal Defence Service (CDS)

Unlike the CLS, the Criminal Defence Service is run solely by the LSC in partnership with criminal defence lawyers and representatives. The CDS guarantees that people under police investigation or facing criminal charges can get legal advice and representation. It also helps to ensure the fair, effective and efficient operation of the criminal justice system. Our main activities involve:

- managing the duty solicitor schemes for police stations and magistrates' courts so that those who need advice and representation can see a solicitor
- providing criminal defence services directly to the public through the Public Defender Service
- controlling high cost criminal legal aid cases (those lasting 41 days or longer at trial) by working closely with defence teams
- contributing to the development of the criminal justice system, working closely with the Office of Criminal Justice Reform and other criminal justice organisations.

Our Vision for the future

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

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

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

Corporate Priorities

To help us achieve our Vision and deliver our objectives, we have four Corporate Priorities for the period 2005/06 to 2007/08.

Corporate Priority 1: To ensure legal aid clients have access to quality services which meet their needs.

Corporate Priority 2: To work with service providers who provide quality, value for money and client focused services, in whom we have sufficient trust to liberate them to deliver.

Corporate Priority 3: To deliver a sustainable scheme within the resources available and demonstrate real value to government in terms of effective financial control, improving value for money and positive outcomes for clients.

Corporate Priority 4: To transform the organisation to enable it to deliver these objectives and excellence in all it does.

Our relationship with the Department for Constitutional Affairs (DCA)

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 DCA. The Secretary of State for Constitutional Affairs is accountable to Parliament for our activities and performance.

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

DCA Public Service Agreement target to which the LSC contributes

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

DCA Public Service Agreement targets relevant to the LSC

- To improve the delivery of justice by increasing the number of crimes for which an offender is brought to justice to 1.25m by 2007/08
- To reassure the public, reducing the fear of crime and anti-social behaviour, and building confidence in the criminal justice system without compromising fairness
- To reduce unfounded asylum claims as part of a wider strategy to tackle abuse of the immigration laws and promote controlled legal migration
- By 2009/10, to increase the proportion of care cases being completed in the courts within 40 weeks by 10%.

Key achievements during 2005/06

This year we achieved or exceeded six out of nine corporate targets, and most importantly, more people got help with their problems since 2000.

During the year the LSC:

- delivered over 708,510 acts of assistance through the CLS. These figures represent a 15% increase on 2004/05 and are the most successful results in the history of the LSC
- delivered 1.6 million acts of assistance within the CDS
- maintained 100% coverage of the duty solicitor scheme
- drove up performance standards within publicly funded work by improving or removing all providers with whom we had identified concerns about quality or efficiency as at 31 July 2005
- implemented a number of changes within the legal aid system resulting in savings of over £120m
- achieved 91% against our target of 85% on the national customer service score
- launched a talent management programme to develop the potential of our staff and identify future senior executives
- increased the number of providers who process their claims online to 1,950, helping to improve efficiency.

Legal aid cash expenditure in 2005/06

Table 1: Community Legal Service, Criminal Defence Service and Commission payments 2005/06¹

	Payments (cash) £m ²	Acts of assistance 000s ²
CLS Licensed Work (gross)	806.8	194.8 ³
less operating receipts	(259.8)	–
CLS Licensed Work (net)	546.9	–
CLS Controlled Work	284.1	801.4
CLS total	831.0	996.1
CDS general criminal contracts (gross)	501.9	1,488.9
CDS Crown Court and higher courts representation (gross)	695.5	121.5
less operating receipts	(0.6)	–
CDS total (net)	1,196.8	1,610.4
CLS and CDS total (net)	2,027.8	2,606.5
LSC administration	96.8	–

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.

Controlled Work is 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 Asylum and Immigration Tribunal.

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

Net CLS payments

Total payments from the CLS Fund during 2005/06 were £831m. Of this, £547m comprised Licensed Work, Very High Cost Cases and family mediation contracts, and £284m was spent on Controlled Work. The expenditure on Controlled Work included £22m on grants, projects and other non-contract work. Of the Controlled Work payments, £102m was spent on immigration matters and £182m on other matters.

Net CDS payments

We spent £1,197m on the CDS during 2005/06. This enabled service providers to deliver more than 1.6 million acts of legal assistance.

Administration expenditure

At the start of the year the LSC's administration budget on a Resource Accounting and Budgeting basis was £94m, however we took a range of actions during the year to reduce spending as part of efforts across the DCA to make cost savings. The final cash spend for the year was £96.8m including an additional pension fund contribution of £5m. Our expenditure on a resource basis was £92.1m, the agreed target with the DCA.

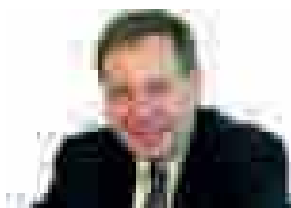
Our non-executive Commissioners

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



Sir Michael Bichard

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 (later the Department for Education and Employment). He is currently Rector of the University of the Arts, London and holds a number of non-executive positions.



Angus Andrew

Angus is a solicitor with over 30 years' experience of providing publicly funded legal services. He has a strong background in management and has over 10 years of public appointment experience, including as a member of the Main Board of the Law Society. Angus is currently Vice President of the Residential Property Tribunal Service and a Legal Chair of the Adjudication Panel for England.



David Edmonds CBE

David is Chair of NHS Direct and NHS Shared Business Services Ltd. David was formerly the Director General of Oftel and a non-executive board member of Ofcom. As a former Chief Executive of the Housing Corporation and Chair of Crisis, David has considerable experience of working with public sector and voluntary organisations, and currently sits on a number of PLC boards as a non-executive director.



Tom Jones OBE

Tom has extensive public appointment experience, being the former Chair of the National Lottery Charities Board - Wales Committee. He is Honorary Vice President of the Wales Council for Voluntary Action and Chair of the Millennium Stadium Charitable Trust. Tom is a working farmer with a lifelong knowledge of rural issues.



Lionel Joyce OBE

Lionel was formerly Chief Executive of Newcastle City Health Trust, and since then he has held a number of non-executive appointments including as Chair of Turning Point and Mental Health Providers. He is a Mental Health Act Commissioner and has chaired a number of inquiries for Strategic Health Authorities. He is Chair of Dance City, the northern dance agency, and of the Northumberland Cheese Company.



Anthony Edwards

Anthony is a solicitor and senior partner at TV Edwards, and a specialist in professional conduct. Anthony contributes to a range of professional texts and devotes a lot of his time to training in professional conduct and the management of criminal law work. He is also Head of Professional Service for the Public Defender Service.



Tina Fahm

Tina is the Director of a management training company and the Director and Independent Governor of the Westminster Foundation for Democracy. Tina is also the Home Secretary's Representative on the selection panel for independent members of Hertfordshire Police Authority, a member of the Ethnic Minority Business Forum of the Small Business Service and a magistrate.



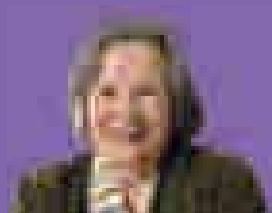
Juliet Herzog

Juliet is a former Liverpool City Councillor with extensive experience of community work. Juliet is a salaried partner at a firm of solicitors in Liverpool, a member of the Council of Management of Merseyside Trades Union Community and Unemployed Resource Centre, and a member of the Civil Procedure Rule Committee.



Beryl Seaman CBE

Beryl was formerly a social worker and was involved in the governance of the Probation Service as Chair of the Probation Boards' Association. She is currently a Commissioner for the Commission for Social Care Inspection, Director and Chair of the Board of Trustees of Voluntary Action Sheffield, Trustee of the Camelot Foundation and a magistrate.



Dr Lily M Segerman-Peck

Lily is a consultant in business and professional development and an independent assessor of ministerial appointments to public bodies, on the Office of the Commissioner for Public Appointments' Central List. Formerly a teacher and UK expert to the European Community Network *Women in decision-making*, Lily is now a board member of Women's Pioneer Housing Ltd and Chair of the Menerva Educational Trust.



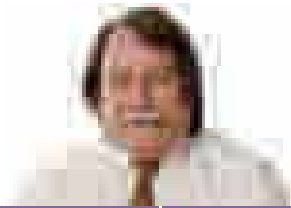
Dr David Wolfe

David has been a barrister since 1992. David's early practice included general common law and criminal law, but he now specialises in public law. David is a founder member of the Matrix chambers where he was Finance Director between 2000-2005. He is part time Chair of the Special Educational Needs and Disability Tribunal and is the Commission's advocacy specialist.

Our Executive Team

With a head office in London, the LSC currently employs around 1,650 staff in 15 offices across England and Wales. We also currently operate eight Public Defender Service offices.

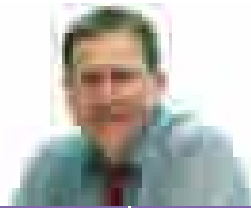
The Executive Team lead four directorates, reflecting the stages of service provision from planning to delivery.



Brian Harvey OBE

Acting Chief Executive

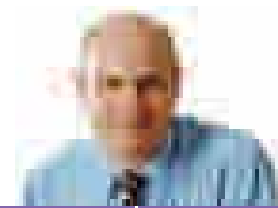
Brian joined the LSC's predecessor, the Legal Aid Board in 1989 as Personnel Director having previously held senior management positions in the private sector. Brian became Director of Resources and Supplier Development in 1996, Deputy Chief Executive in June 2004 and took over as Acting Chief Executive in June 2005. The main focus of his role is to drive forward the change programme and ensure delivery of our corporate targets.



Richard Collins

Executive Director for Policy and Planning

Richard joined the Legal Aid Board from the Law Society in 1992 as a policy adviser. He was Director of the CDS before being appointed to his current role in June 2004. Richard is responsible for ensuring that our policy and research effort is focused on understanding clients' needs and particularly the impact of how and when advice is provided.



David Godfrey

Executive Director for Corporate Services

David joined the LSC in April 2005. Prior to this he was Chief Financial Officer and Senior Vice President of Misys Hospital Systems in the USA. The main focus of David's role is to manage all of the services on which the LSC depends to drive and support its operations.



Mike Jeacock

Executive Director for Service Delivery

Mike was appointed to this role in June 2004 having joined the LSC in July 2002 as Director, England and Wales. Prior to this he worked mainly in the financial services sector. Mike is responsible for developing services that give consistent, high quality outcomes for clients and the delivery of operational performance targets.



Jonathan Lindley

Executive Director for Service Design

Jonathan took up this post in June 2004 after joining the LSC in 2003 as Director for Performance and Change. He was formerly a Programme Director at Jobcentre Plus. Jonathan is responsible for developing our services and delivery methods in response to changing client needs.


About our annual report


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


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


Our Annual Report 2005/06 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 2005/06 – 2007/08*. Our corporate plans are published on our website at www.legalservices.gov.uk.

Our annual report is organised into chapters focusing on each of our Corporate Priorities:

 **Corporate Priority 1:** Ensuring legal aid clients have access to services

 **Corporate Priority 2:** Working with high quality service providers

 **Corporate Priority 3:** Delivering an affordable scheme

 **Corporate Priority 4:** Transforming our organisation.

For each Corporate Priority, we set out our detailed corporate targets and milestones, which are taken from our *Corporate Plan 2005/06 – 2007/08*. For each target or milestone, we include an assessment such as:

- achieved
- not achieved
- partially achieved - this is used where we nearly achieved a target or milestone, or achieved a target or milestone with a delay
- changed - this is used where priorities have changed
- on track - this is used for a milestone that we expect to achieve, if the deadline has not yet passed.

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 financial statements for 2005/06 have been audited by our external auditors, the National Audit Office, and 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.

As well as our annual report, statement on internal control and financial statements, we are now required to publish annually a directors' report, a management commentary and a remuneration report. These start at page 40 and are followed by the financial statements. They complement and supplement the financial statements, and set out some of the more technical aspects of our performance for the year. The remuneration report provides information about the remuneration of our senior staff.

We present statistical information for 2005/06 in a more headline way than in previous years. A detailed statistical analysis of our work, including comparisons with 2004/05, can now be found on our website.



Corporate Priority 1

To ensure legal aid clients have access to quality services which meet their needs

Corporate targets 2005/06

Target	Status	Progress in 2005/06
Increase the number of acts of assistance (civil and family legal aid) to clients to 650,000 by April 2006	Achieved	By 31 March 2006, we had exceeded this target by increasing acts of assistance to 708,510. This figure excludes asylum, but includes Community Legal Service Direct.
Increase success rate of cases where legal aid has been granted to assist people seeking Asylum (Controlled Legal Representation) to 40% by April 2006	Partially achieved	The success rate was 39% by April 2006. Work finished by former suppliers has meant that this figure was not as high as we had hoped but as the quality of service providers increases, we expect success rates to reflect this.
Maintain national coverage of duty solicitor scheme	Achieved	We maintained 100% national coverage of duty solicitor schemes throughout 2005/06.

Key milestones 2005/06 and expected date

Milestone	Status	Progress to date
Publish final CLS Strategy following consultation by Winter 2005/06	Achieved	Following a consultation between July and October 2005, we published our five-year strategy for the CLS, <i>Making Legal Rights a Reality</i> , on 23 March 2006.
Implementation of CLS Strategy during 2005/06	Partially achieved	A tender exercise to establish the first two Community Legal Advice Centres in Gateshead and Leicester began in May 2006.
Proposals for expansion of Community Legal Service Direct by October 2005	Achieved	We considered proposals for the expansion of Community Legal Service Direct in February 2005. The tendering process for a contractor to carry out an operator managed service began in July 2005 and we expect the expanded service to be effective from October 2006.
Proposals for mental health contracts by Summer 2005	Changed	This initiative was driven by proposed legislation that has since been withdrawn by the Government. We expect to consult on changes to mental health contracts later in 2006.
Pilot Family Legal Helpline by Autumn 2005	Not achieved	This milestone was not met due to the need to identify funding and establish an appropriate and safe model. We are looking into providing some level of service through Community Legal Service Direct.
Integrate Family Legal Helpline into CLS Strategy during 2006	Changed	As part of our CLS Strategy we are looking into expanding our current telephone service to incorporate family breakdown issues.
Launch of Publicly Funded Collaborative Law pilot by Autumn 2005	Changed	This project has been postponed while we research the success of collaborative law in the private sector.
Report of the Family Advice and Information (FAInS) pilot evaluation by Spring 2006	Partially achieved	The University of Newcastle undertook this research on our behalf and the report is expected in Summer 2006.
Pilot of Family Help funding by Summer 2005	Partially achieved	The pilot went live in October 2005 and we aim to roll out the project by April 2007.

“The CLS Strategy presents a vision that is designed around the needs of clients.”

Ensuring access to justice

Our core purpose is to help people in genuine need access high quality legal advice, information and representation. One of our statutory duties is to develop innovative services to meet legal needs throughout England and Wales. We are continuing to work with our partners to evolve the delivery of legal services so that legal aid can help more people.

Legal Services Research Centre

To help inform our policy development on civil legal services, the LSC undertakes ongoing research through the Legal Services Research Centre. The Legal Services Research Centre was set up in 1996 to inform legal aid policy and the implementation of reform, and recently had its tenth anniversary. It has a broad remit to conduct strategic research in the civil and criminal justice fields.

The second edition of *Causes of Action: Civil Law and Social Justice* was published in March 2006 and compares the findings of the 2001 and 2004 *English and Welsh Civil and Social Justice Surveys*. These are the most in-depth studies of people's experiences of civil justice problems ever conducted.

The research focuses on the experience of, and response to, civil and social justice problems. It shows that:

- these problems often have severe consequences, with many resulting directly in physical ill-health, often requiring some form of medical treatment
- the knock-on cost of civil and social justice problems to individuals and the public purse runs into billions of pounds each year
- problems tend to cluster around family dilemmas, housing difficulties, and economic issues. Vulnerable groups are also more susceptible to problems
- around 10% of people with legal problems are still not seeking advice, though this has declined since 2001. The decline is likely to be due to economic growth, decreased problem incidence set against maintained supply and increased use of the internet
- the phenomenon of 'referral fatigue' is still apparent. This means that the likelihood of obtaining legal advice from an adviser to whom people have been referred declines as they visit more advisers
- around 15% of those who seek legal advice fail to obtain any. Moreover, those obtaining advice attain their objectives far more often than those who try but fail to obtain advice.

These findings have been immensely useful to the LSC. The CLS was introduced during 2000 and after five years of operation, we decided the time was right to review the progress of the CLS and to develop a strategic vision for its future. We wanted to place the needs of legal aid clients at the heart of the CLS and the findings of the *Causes of Action* research have been vital in informing the development of our strategy.

CLS Strategy

The CLS Strategy is key to achieving our Corporate Priority to ensure legal aid clients have access to quality services that meet their needs. In July 2005, we launched a consultation paper on the future of the CLS called *Making Legal Rights a Reality*. The consultation closed in October 2005 and we received over 250 responses, the majority of which were positive. There was a general consensus on the objectives for the CLS and this dialogue with stakeholders further informed our strategy development. We launched the final CLS Strategy in March 2006.

The five-year strategy presents a vision for the CLS that:

- is designed around the needs of clients
- gives the CLS a clearer role in solving the causes of legal problems, rather than repeatedly dealing with individual legal actions
- promotes a better awareness of civil legal rights and how to exercise them
- improves access to legal advice services for the most vulnerable people in our society by offering a more holistic combination of social welfare law services in areas of greatest deprivation, combined with an expansion of telephone services in other areas
- introduces better quality assurance based on outcomes for clients
- creates a more cost-efficient and integrated legal aid system, which will better coordinate the different funding streams for legal advice, especially with local authorities.

The proposals include:

- expanding the Community Legal Service Direct telephone helpline and advice services. Community Legal Service Direct gives people access to legal advice over the telephone, as well as via a website and leaflets. Feedback has shown it is popular with clients
- establishing and evaluating Community Legal Advice Centres in the most deprived communities where clients often need help on a range of social welfare

problems. It is common for people needing help with employment or benefits issues also to have problems with debt and housing, but currently they may have to seek help from different solicitors or agencies specialising in different areas of law. The Centres bring all those services together in one place

- developing Community Legal Advice Networks, delivering services tailored to an area's needs and giving people access to a full range of services. Currently law firms and advice agencies operate independently of each other.

CLS Strategy and the Carter review

The strategy is subject to Lord Carter's review of legal aid procurement and the LSC has been working closely with his team and the DCA to develop recommendations on procurement arrangements for the CLS.

CLS Strategy in Wales

The strategy in Wales is being taken forward in partnership with the Welsh Assembly Government and the Welsh Local Government Association. We aim to work with these partners to develop the overarching CLS Strategy framework but tailor it to the specific needs of the Welsh population.

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

Review of specialist support

In January 2006 the LSC gave notice of the termination of the specialist support service in England and Wales. Specialist support contract holders provide second-tier advice – usually over the telephone – to eligible organisations and not directly to clients. As we are a public body sponsored by the DCA, the Constitutional Affairs Select Committee periodically reviews aspects of our work. Our decision to terminate specialist support was scrutinised by the Committee.

The LSC carefully considered the Select Committee report and its recommendations. Following the Select Committee report, dialogue with providers and the commencing of judicial review proceedings by some of the providers affected, we withdrew the notice served on specialist support contract holders. The LSC is now conducting a re-evaluation of the specialist support initiative in the context of the objectives set out in the CLS Strategy.

Community Legal Service Direct

We have made significant progress in giving people better access to legal services since launching Community Legal Service Direct in 2004.

Community Legal Service Direct combines a specialist telephone advice line with a website and public information leaflets, under one easy to identify brand. 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. The service continued to increase its coverage during 2005/06.

Performance and use

Community Legal Service Direct is particularly helpful 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.

Community Legal Service Direct is also available in different languages and formats. For example, the information leaflets are available in audio formats, and the website is speech-enabled.

In 2005/06 the telephone helpline received over 509,000 calls. 164,178 callers spoke to a specialist adviser and 206,645 callers spoke to the operator service to find local advice providers. Over 70% of callers who were tested were eligible for legal aid. The demand for the telephone service is highlighted by the fact that there were 55,983 calls in March 2006 compared to 33,072 calls in March 2005.

In 2005/06 our specialist telephone advisers completed 73,625 cases. Table 2 below shows a breakdown by category of case.

Table 2: Breakdown of Community Legal Service Direct cases by category 2005/06

Category of work	Number of cases
Debt	29,508
Education	4,631
Employment	11,562
Housing	12,397
Welfare benefits	14,047
Other categories ¹	1,480

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

As the figures show, demand for debt advice was particularly high. Demand for employment advice exceeded expectations by the greatest amount, and the highest levels of ineligibility were found here. In January 2006 we took the decision to implement a means test for the employment advice service before clients speak to advisers (the service in Wales remains unchanged). Ineligible clients are signposted to the Advisory, Conciliation and Arbitration Service advice line, the Community Legal Service Direct range of leaflets and to other sources of employment information.

A second survey of the Community Legal Service Direct national telephone service in June 2005 showed that the helpline was continuing to deliver positive results for clients. People rated both the overall service and the specialist advisers that they dealt with highly. 91% of respondents said they were 'very satisfied' or 'quite satisfied' with the service and 98% stated that the adviser seemed knowledgeable and confident and identified the problem quickly.

During the year 2,108,755 users visited the Community Legal Service Direct website. The monthly average number of visitors to the website also increased by 206%, from 57,407 in 2004/05 to 175,730 in 2005/06.

In addition, 2,143,068 leaflets were distributed directly to the public and advice organisations and a further 370,880 were downloaded from the website.

Delivering access to justice

We report below the headline movements in numbers of contracts, numbers of acts of assistance and any key trends. The costs are reported in table 1 on page 7. More detailed figures are available on our website at www.legalservices.gov.uk.

Community Legal Service

The CLS funds a variety of legal services, ranging from initial advice to full representation at court. Funding for such services is delivered through contracts with solicitors and not-for-profit agencies. Contracts are granted within particular categories of law to ensure that we can effectively match supply with demand.

CLS contracts operate under two mechanisms:

- **Controlled Work** – this is the provision of general Legal Advice from contracted service providers. It covers legal advice and assistance - referred to as Legal Help, as well as Help at Court and Legal Representation in front of Mental Health Review Tribunals and the Asylum and Immigration Tribunal. This is usually the first stage of legal aid that clients require.
- **Licensed Work** – this covers all other civil Legal Representation, except for Very High Cost Cases, which are managed under separate contracts. 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 decide if the case will receive funding on the basis of the client's eligibility and the merits of the case.

During 2005/06 we spent £831m on the CLS, enabling our network of legal aid service providers to carry out 996,134 acts of civil legal assistance. 173,304 clients received representation and an estimated 21,474 people eligible for legal aid took part in family mediation. Some of these were also among the 801,356 who received advice and assistance, including 93,363 who received advice or representation on immigration matters. Excluding immigration matters, more people got legal advice and assistance this year than at any point since 2000/01.



CASE STUDY: Chantel*

Helping people with their problems

Chantel was brought up in care with her older brother. She was five years old when he started abusing her and his verbal and physical abuse continued throughout her childhood until she told her foster mother. Her foster mother then contacted the police.

During the recent investigation, Chantel was put in touch with a CLS-funded family solicitor at Nottingham Family Law Associates. An application was successfully made on her behalf at the County Court for an injunction against her brother. The court order prevented him from visiting, harassing or pestering her. It also had a power of arrest.

Chantel's brother breached the injunction several times by making threatening phone calls and sending people to her house on his behalf. He was arrested in February 2006 and at the subsequent court hearing, was found guilty of breaching the court order. He was sentenced to 28 days in prison.

As a result of her solicitor putting her in touch with Women's Aid, Chantel has now changed her name and re-located to a different town. She hopes this will make it harder for her brother to contact her in the future.

Chantel says: "The court order lasts for a year and it has made me feel safer. There were days when I woke up and just couldn't be bothered to get up. But I'm glad I went to see my solicitor. She has helped me and gives me ongoing support. I would say to anyone, find a solicitor soon and not leave it any later."

**Chantel is this client's former name.*

CLS Controlled Work

Movement in the number of civil contracts

As at 31 March 2006 the total number of service providers holding a CLS contract was 4,101 compared to 4,430 as at 31 March 2005. Of these contracts, 3,632 were held by solicitors and 469 by not-for-profit agencies. This total represents a reduction of 7%. The reduction is a continuing trend. Whilst we recognise that some providers are deciding to give up legal aid work, the reduction is also a result of the LSC's drive to improve quality and remove providers who cannot meet our performance standards. At the same time there was an increase in acts of assistance provided to clients.

Categories of Controlled Work

The LSC grants contracts within specific categories of law, to match supply to need and ensure quality. The number of contracts held in specific categories of law decreased by 8% overall, from 7,301 as at 31 March 2005, to 6,725 as at 31 March 2006. The largest reduction can be seen in immigration and asylum where contracts decreased by 26% from 498 to 367, as a result of both the significant drop in the number of asylum seekers and our efforts to remove poor quality legal aid suppliers in this category of law.

Civil acts of assistance

For Controlled Work, an act of assistance is an instance of help given by a service provider to a legal aid client under the Legal Help scheme and does not cover representation at court. We monitor the number of new acts of assistance very closely, and our target for 2005/06 was to increase the number in civil legal aid to 650,000 (excluding immigration and asylum) by April 2006. This target contributes to the DCA's Public Service Agreement to increase, year on year, the number of people who receive suitable assistance in priority areas of law involving fundamental rights or social exclusion.

We exceeded this target by delivering 708,510 new acts of assistance in England and Wales, of which Community Legal Service Direct contributed 73,625. This is a 15% increase on figures from 2004/05. The figure does not include immigration and asylum help as demand for this fluctuates according to the number of people entering the country. Table 3 shows a breakdown of how this help was provided.

Table 3: Acts of assistance by group 2005/06

Group	Number
Solicitors	449,890
Not-for-profit organisations	163,140
CLS Direct telephone advice	73,625
Other (such as pilots or projects)	21,855
Total acts of assistance	708,510

The introduction of the tailored fixed fee scheme in 2005 helped to facilitate planning of new case starts and stabilise expenditure. Our regional offices worked closely with local solicitors and advice agencies to agree regional strategies and increase allocations of work where there was demand, helping to ensure that there was sufficient advice available to those who needed it.

We are committed to achieving best value for money and increasing access to services. Our strategy to focus our limited resources on front line services has been justified by the 15% increase in the number of people helped this year.

CLS Licensed Work

Solicitors' firms with a contract to carry out Controlled Work are also able to undertake Licensed Work, while a small number of firms have contracts enabling them to do Licensed Work only. There were 227 Licensed Work only contracts in place at the end of 2005/06, compared with 241 at the end of 2004/05.

Table 4 shows the number of applications we received for civil and family legal aid funding, the amount of certificates for funding that we issued, the number of bills we paid for cases that were finished and the percentage of providers who reported that the outcome of their client's case was of significant benefit to them.

Table 4: Work started, completed and billed 2005/06

	Funding applications received	Certificates issued	Final bills paid	Substantive benefit to client %
Family	160,826	130,598	139,375	57
Non-family	33,969	24,467	36,161	45
Total 2005/06	194,795	155,065	175,536	54
Total 2004/05	193,329	154,648	180,033	56

Family

Applications for family legal aid

There was a small increase in the number of applications that we received for family legal aid. Movements within family applications included:

- a 26% increase in applications for help with mediation
- a 4% increase in applications connected with care proceedings
- a 2% decrease in applications for legal aid for domestic violence
- a 1% decrease in other divorce and relationship breakdown applications.

Certificates issued for family legal aid

The number of certificates we issued for family legal aid has gradually reduced over the past few years. The pattern in the number of family certificates that we issued in 2005/06 was similar to the applications we received. Changes in the funding regulations in October 2005 (see page 32) have resulted in a 6% decrease from 2004/05 in the number of certificates issued for financial proceedings cases. We issued 6,082 certificates for help with family mediation, 22% more than in 2004/05.

The average cost of a legal aid certificate for family work rose by 8%. Significant movements in the cost of certificates included:

- an 11% increase in the cost of care proceedings certificates
- a 6% increase in the cost of domestic violence certificates
- a 7% increase in the cost of residence and contact certificates
- virtually no change in the average costs for finance certificates
- a 6% decrease in the cost of certificates for help with mediation.

Bills paid for family legal aid

The number of bills we paid for legal aid work in the family category of law in 2005/06 was less than in 2004/05. Analysis of movements showed that within the number of bills that we paid:

- domestic violence proceedings were down 4%
- financial related proceedings were down 5%
- residence and contact claims were down 2%
- work relating to care proceedings was up 2%
- legal advice associated with family mediation was up 13%.

As the average cost of each certificate increased, the amount of money that we spent on paying bills for family legal aid work rose from £476.8m in 2004/05 to £507.5m.

Key variances in the amount we spent on bills for family legal aid work were:

- an increase of £28m to £243m in the amount spent on certificates for care proceedings
- an increase in residence and contact costs by £6m to £132m
- an increase in domestic violence costs by £1m to £51m
- a decrease in the cost of finance certificates of £3m to £75m.

Outcomes reported in family work

Legal aid service providers reported a substantive benefit to the client in 57% of family cases completed during the year, the same proportion as in 2004/05. There were some minor variations within and between the categories of family work, and a slightly higher proportion of cases were completed without issuing proceedings, 10% compared with 9%, but overall the picture was stable.

“Focusing our limited resources on front line services has been justified by the 15% increase in the number of people helped this year.”

Family mediation

In 2005/06 payments totalling £13.8m were authorised to fund 14,128 mediation case starts. During the same period, 60% of closed cases had a successful outcome. At the end of 2005/06, the LSC had contracts with 152 for profit and 62 not-for-profit family mediation services.

Non-family

Applications for non-family legal aid

Applications for non-family cases including immigration were marginally less than last year, however we received 9% more applications for legal aid in:

- housing cases
- community care cases
- actions against the police and other law enforcement agencies.

Applications for legal aid fell by 16% in clinical negligence cases as a result of changes made to the way that we fund legal aid for this category (see page 32). There was also an 11% decrease in applications for immigration cases owing to the fall in immigration figures overall.

Certificates issued for non-family legal aid

The number of certificates we issued for non-family legal aid was also less than last year. The main movements in certificates issued were:

- an 8% increase in community care certificates
- a 7% increase in housing certificates
- a 23% decrease in certificates issued for clinical negligence cases.

Changes to the way that we fund legal aid, introduced in July 2005, mean that applicants now have to make full use of the appropriate complaints procedures before pursuing legal action. We think that this may have affected the numbers of legal aid certificates issued for actions against the police etc. and clinical negligence cases, and that numbers may start to increase again in the future as applicants who have not received satisfactory answers to their complaints return to the litigation route.

Although the average cost per certificate for non-family legal aid increased by 6% overall, the amount of cash that we spent on main bills fell by 1% to £296.1m, down from £299.0m in 2004/05. This included £153.1m in 7,756 'set-off' cases. Set-off cases are cases where the opponents agree to pay the costs in full. 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 agreement 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. Although technically 'paid' out of the CLS Fund, there is no net cost to the public as the funds are immediately recovered from the opponents.

The main categories where the average cost of a certificate increased the most were:

- clinical negligence certificates by 18%
- personal injury certificates by 16%
- miscellaneous cases including business and property by 9%
- immigration cases by 5%.

The average cost per certificate in housing cases, which make up over a third of non-family claims by volume, was virtually unchanged.

Bills paid for non-family legal aid

A number of categories of law were taken out of the scope of legal aid after the introduction of the *Funding Code* in April 2000, which sets out eligibility for legal aid. There are some cases, which are still ongoing, that started before the introduction of the *Funding Code* in categories of law that we no longer fund under legal aid. As these older cases finish, the number of bills that we have to pay decreases; this year we paid 7% fewer bills than we did in 2004/05.

In the categories of law that we no longer fund, but did prior to the introduction of the *Funding Code*, the number of bills paid reduced by:

- 23% for personal injury claims
- 16% for miscellaneous cases, including business and property.

Amongst the major categories of law that we still fund, the numbers of bills that we paid reduced by:

- 1% for housing certificates
- 4% for clinical negligence certificates
- 8% for immigration certificates.

Clinical negligence replaced personal injury as the highest costing category of non-family law. The total cost of bills in clinical negligence cases increased by £11m to £95m, £66m of which was in set-off cases. The cost of personal injury certificates fell by £10m to £84m and £49m of this was in set-off cases. Total costs in housing cases were almost unchanged at £38m, £12m of this in set-off cases, and costs in miscellaneous cases including business and property fell by £3m to £34m, again £12m in set-off cases.

Outcomes reported in non-family work

There was a significant decrease in the proportion of non-family cases where providers reported a substantive benefit to the client, from 52% in 2004/05 to 45% in 2005/06.

The most significant change in positive outcomes reported was in the ageing cases still being reported under the obsolete personal injury and miscellaneous cases including business and property, down from 65% to 37% and from 45% to 35% respectively. We have actively been seeking to close down older cases where there is no prospect of a positive outcome, and this is reflected in the statistics for this year.

Funding appeals and reviews

If a legal aid applicant is refused public funding under Licensed Work, there is a right to appeal against the decision. During 2005/06 there were 8,588 appeals in total. Of these, 4,435 were granted after a review by the relevant regional office. Of the remaining 4,153 appeals, 3,824 proceeded to a full Funding Review Committee hearing and were assessed by independent solicitors and barristers. Of these, 1,157 were granted in full or in part. Following review, applications are often granted on the basis of further information provided by the applicant.

Exceptional funding

If a case falls outside the normal scope of CLS funding, such as business disputes, inquests and tribunal hearings, clients can make an application for exceptional funding from the LSC.

Applications for exceptional funding are initially made to the LSC and if approved, are passed to the DCA 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 DCA Ministers.

In 2005/06 there were 350 applications for exceptional funding. 51% were refused by the LSC, 3% were awaiting a decision by the DCA, 42% were granted by the LSC or DCA, and 4% were refused by the DCA. The outcomes of exceptional funding applications during 2005/06 are shown in table 5.

Table 5: Exceptional funding applications determined 2005/06

Category	Total %
Inquest	33
In scope inquest	26
Enquiries/tribunals	14
Personal injury	3
Director disqualification	1
Other	23

Criminal Defence Service

The CDS ensures that people involved in criminal investigations and proceedings have access to legal advice, assistance and representation. This helps to ensure that anyone who is accused of a crime can defend themselves and receive a fair trial.

Movement in the number of criminal contracts

The LSC funds the CDS in a similar way to the CLS, by awarding service providers individual contracts to supply criminal defence services. We monitor adequacy of supply in criminal defence closely. At the end of this year 2,608 solicitors' offices operated under a CDS contract, a slight decrease of 3% on 2004/05.

Services provided through the CDS

During 2005/06 we spent £1.2 billion on the CDS, enabling 1.6 million acts of assistance to be carried out. We are responsible for maintaining the duty solicitor scheme and fund duty solicitors to provide legal advice at police stations and magistrates' courts across England and Wales 24 hours a day, 365 days a year. Throughout 2005/06, we continued to maintain national coverage of duty solicitor schemes at 100%.

Table 6 shows the services provided to CDS clients. It demonstrates the legal process over time from providing legal aid to suspects in the police station who have not yet been charged through to defending them in the courts after they have been charged.

Help at the police station and magistrates' courts

We are working hard to ensure that we deliver real value for money in criminal legal aid and the combined efforts of everyone connected with the CDS mean that, despite substantial increases to the volume of work, the rising costs of criminal legal aid have slowed down in recent years.

In 2005/06 the CDS assisted more people than ever before who needed help at police stations. The number of people receiving advice and assistance including that delivered by CDS Direct (see page 34), at police stations rose by 7.5% from 2004/05 whilst the overall cost of providing that advice and assistance rose by almost exactly the same amount (7.7%).

Applications for legal aid that are processed for magistrates' courts are known as representation orders. There was a marginal increase in 2005/06 (1.6%) in the number of representation orders that we paid for. Whilst this is not a direct reflection of the number of people that we have assisted, it provides a good indication. The overall level is still 1% down from the peak of activity in 2003/04.

The cost of the work that we pay for in the magistrates' courts has increased marginally faster than the number of defendants that our service providers help. This is due mainly to an increase in the costs of disbursements, which include costs such as experts' fees.

Table 6: CDS types of service, numbers and total claimed 2005/06

Advice or representation	Types of service	Numbers ¹	Total claimed £000
Police station: suspects not yet charged	Free standing advice and assistance	13,954	1,526
	Police station advice and assistance	756,101	172,794
Lower courts: defendants who have been charged	Court Duty Solicitor sessions	86,069	19,782
	Representation orders	581,307	295,235
	Advice, assistance and advocacy where no representation order granted	52,733	14,823
Higher courts: defendants who have been charged	Very High Cost Criminal Case ² contracts let	414	103,187
	Representation orders	121,483	592,306

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

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

Factors such as an increase in the number of police and the Government's emphasis on crime reduction have led to a rise in the number of arrests. As a consequence, there has been an increase in the number of times that a solicitor is required at the police station and at the magistrates' courts. As well as this, the Crown Prosecution Service introduced a Statutory Charging initiative. This has led to much closer liaison between the police and the Crown Prosecution Service about the charge that the accused will face. The process has resulted in more appropriate charging and fewer cases being sent to the magistrates' courts than we had expected, as cases that might have gone to the magistrates' courts previously are filtered out before they reach this stage.

Although the impact of the Crown Prosecution Service's initiative means that the number of representation orders did not increase as much as we thought, it may have contributed to an increase in the average length of attendance by a solicitor at the police station, which has caused costs to rise.

Help at the Crown Court

Crown Court expenditure continued to increase over the year. We expect that initiatives begun in 2005/06 and those implemented in 2006/07 will contain future increases in overall expenditure, excluding that driven by volume. See page 34 for further details of changes made to Crown Court remuneration.

Public Defender Service (PDS)

Alongside traditional criminal defence practitioners, criminal defence services are also delivered by the PDS. The PDS was set up in 2001 to deliver quality criminal defence services through directly employed solicitors, barristers and accredited representatives. PDS staff provide independent advice and representation 24 hours a day, seven days a week to clients in police custody, magistrates', Crown and other higher courts.

The PDS currently has eight offices across England and Wales. The service dealt with 5,886 cases in 2005/06, an increase of 27% on 2004/05.

Further information about the PDS is available on the LSC website and includes the PDS annual report. We intend to publish a report on the evaluation of the PDS later in 2006.



CASE STUDY: Babatunde Thomas

Protecting people's rights

Babatunde Thomas was arrested in August 2005 and charged with conspiracy to supply class A drugs. He was 20 years old, studying Economics at university and sharing a house with three university friends.

In early August last year, the police raided two addresses where they believed drug dealers were living. Two of the men were arrested as they stepped out of a taxi and the driver said he had picked them up from Babatunde's address.

Police obtained a warrant to search Babatunde's house. They found a safety deposit box containing large amounts of cash in his room, while Babatunde had £500 in cash on him. He was arrested along with his flatmates and taken to the police station. He had never been arrested before and decided not to ask for a solicitor.

He explained that the money in his pocket was to pay his rent that day and he knew nothing about the safe in his room. He said that living in a sociable, student house meant there were always lots of people coming and going. Later that night, he and the other men were remanded in custody.

After a failed bail application, McCormacks Solicitors took on Babatunde's case, by which time he had been in custody for almost three months. Police forensically tested the safe and its contents and neither could be connected to Babatunde. The prosecution discontinued the case as there was insufficient evidence to proceed and Babatunde was found not guilty and discharged. Babatunde believes that one of his flatmates had moved the safe into his room when he heard the police coming.

Babatunde is now looking forward to putting this ordeal behind him, and is hopeful that he will be allowed to continue his studies in September.



Corporate Priority 2

To work with service providers who provide quality, value for money and client focused services, in whom we have sufficient trust to liberate them to deliver

Corporate targets 2005/06

Target	Status	Progress in 2005/06
Drive up performance standards by taking every action possible to either improve or remove all contracts with ineffective suppliers (those with cost assessments of Category 3 or quality assessment peer reviews at 4 or 5) by April 2006	Achieved	By April 2006 we had improved or removed 100% of contracts with all service providers who had been identified as being ineffective as at 31 July 2005. Our target for 2006/07 is to improve or remove service providers who are identified as ineffective as at 31 July 2006.
Reconcile each contract so that claims are within 90 – 105% of contract payments by April 2006	Partially achieved	We reconciled 98.9% of contract payments by April 2006. We investigated all unreconciled contracts and only in exceptional circumstances did we not reconcile a contract, for example, alternative arrangements for payments were made if service providers held a criminal contract with the LSC.

Key milestones 2005/06 and expected date

Milestone	Status	Progress to date
Issue the consultation on the introduction of Preferred Suppliers by Autumn 2005	Partially achieved	Proposals for the Preferred Supplier scheme were published on 20 March 2006. The timeframes of this project were changed to accommodate the publication of Lord Carter's report on the procurement of legal aid.
Begin the roll out of the Preferred Supplier scheme during 2006	On track	Following publication of Lord Carter's report and the outcome of the Preferred Supplier consultation, we hope to begin to roll out the scheme before the end of 2006.
Introduce new contracts for all suppliers by April 2007	On track	We are on track to introduce new contracts for all civil providers by April 2007. We have extended criminal contracts to April 2008, although the contract does allow for termination on six months' notice, pending the outcome of Lord Carter's review.

“The Preferred Supplier scheme will ensure consistently high quality services for clients, better value for taxpayers and a simpler, clearer relationship with service providers.”

Working in partnership

We commission the services people need from solicitors, barristers and advice agencies and their skills and commitment are vital in helping people resolve their problems. We work in partnership with advice providers to ensure that people using publicly funded legal services receive high quality advice.

In recent years, much of our focus has been on driving up performance standards in the legal aid system and we have introduced a number of initiatives to achieve this goal. We are now looking to build on our quality measures and evolve the way we work with providers. In March 2006 we launched a consultation on our proposals for a national Preferred Supplier scheme.

Preferred Supplier scheme

‘Preferred Supplier’ is a supplier management strategy, which will radically change the way we work and the relationship we have with legal aid service providers.

In June 2004 the LSC started running a pilot scheme with 25 legal aid service providers from five regions, which has had overwhelmingly positive results. We launched a 12-week consultation on 20 March 2006 and held Preferred Supplier events across England and Wales for solicitors, not-for-profit providers and staff. These events allowed us to explain and discuss the proposals and receive feedback from stakeholders.

Subject to the outcome of the consultation and any developments arising out of Lord Carter’s review of legal aid procurement (see page 32), we plan to begin rolling out a finalised scheme in late 2006. Lord Carter has indicated support for a Preferred Supplier approach as an essential quality base underpinning his proposals.

The Preferred Supplier scheme will ensure consistently high quality services for legal aid clients, better value for taxpayers and a simpler, clearer relationship with service providers. By 2009 the LSC intends to be working only with Preferred Suppliers. The strategy sets the context for major internal changes including an organisational transformation process and the extension of e-business.

Ensuring quality

The Preferred Supplier scheme will enable us to move to a system that has a higher standard of entry criteria for providers but then requires less checking and auditing. Initial assessment will use a variety of criteria, including peer review and file assessment.

We will support service providers to help them succeed in the assessment process. It is proposed that Preferred Suppliers will need to have attained a rating of 1 (excellence) or 2 (competent plus) in a peer review assessment. If they do not achieve this at the first peer review, they will receive comprehensive feedback and time to make improvements before having a second peer review. If they fail to pass the second time, they will not be invited to join the Preferred Supplier scheme.

Constructive partnership

Once a provider is invited to become a Preferred Supplier, they will be assigned a relationship manager. As the entry criteria will have assured a high standard of service, providers will benefit from a reduced administrative burden and light-touch performance management. The relationship manager will be responsible for developing a constructive working relationship and will help address any issues that arise as the partnership evolves. Major benefits of the scheme for providers include:

- simpler processes
- lower transaction costs
- greater devolution of decision-making
- more constructive and lighter-touch performance management
- improved customer service via an LSC relationship manager
- better and clearer information to plan the future of their business
- partnership working which is open, innovative and responsive
- a sustainable, long-term relationship with the LSC.

Provider diversity

We are focusing on monitoring client needs to inform the shape of the supply base. Equality and diversity is a fundamental consideration across all of our work. We aim to deliver services which meet the diverse needs of legal aid clients, while ensuring high quality and value for money.



CASE STUDY: Claire Wiles

A new partnership with service providers

HCL Hanne & Co is one of the 25 firms and agencies involved in the LSC's Preferred Supplier pilot. The pilot began in 2004 to test a new type of partnership with service providers and the LSC.

Claire Wiles is an assistant solicitor specialising in housing law and is based in the firm's London office. Almost all of her work is publicly funded. She believes the relationship between her firm and the LSC has improved significantly as a result of being involved in the pilot.

Claire says: "The pilot arrangements have helped build a greater sense of trust and co-operation with the LSC – it definitely makes it less of a 'them and us' situation. The simplification of forms, and shorter response time to applications and claims, together with easy and direct access to named personnel in business processing, have all helped to increase efficiency, which in turn has freed up more time for substantive client casework."

Having consistent contacts in the different regional offices her firm regularly deals with has been very helpful and Claire's clients have benefited from the well-informed and efficient responses to the firm's queries, coupled with the speedy turnaround of processing work.

"Our relationship manager knows us and appreciates the needs of our firm and our clients. She can access the relevant information and services to help us ensure the best service for clients.

"Having devolved powers to take cases forward is also immensely beneficial. We can decide whether a case merits public funding without having to check with the LSC first – it's quicker, easier and is one less pressure in an already stressful situation for the client."

We take our responsibilities under equalities legislation very seriously and are committed to ensuring diversity within publicly funded legal services. We recognise that we need to develop strategies with minority providers, for example working with black and minority ethnic providers to help them serve clients in their communities, whilst maintaining high quality standards.

Prior to Lord Carter's review, we were considering introducing competitive tendering for work in the police stations and magistrates' courts in London. We commissioned Managing Diversity Associates to research the impact of these proposals on black and minority ethnic firms. The Managing Diversity Associates report, published in April 2006, is available on the LSC website.

Ensuring high quality advice

Improving the quality of advice and representation is a key objective for the LSC, as receiving poor legal advice can be worse than not getting any advice at all. The Preferred Supplier consultation will help us define how we will drive up quality standards in the future. There are already a number of existing activities helping to maintain performance standards within publicly funded work. Some of these are set out below.

Peer review

Peer review has become one of our key quality assurance mechanisms. It has the full support of the Law Society and other representative bodies. The quality of advice and legal work being delivered by legal aid providers is assessed by independent, experienced practitioners working within particular categories of law. Peer review has proved to be very successful and is widely supported by the profession. There were 47 peer reviewers in April 2005 – this number increased to 116 as at 31 March 2006.

During 2005/06, 373 reviews were conducted across nine categories of law. Of these reviews, 84 firms (22%) were categorised as being below threshold competence or failing in performance. The LSC is committed to working with these firms to improve their performance but if they fail a second peer review within a maximum of six months, then their contract will be terminated.

File assessment

In preparation for peer review, our senior caseworkers may carry out a provider file assessment. Files are assessed and monitored against key performance criteria, such as quality of advice and client care. The purpose of file assessment is to indicate whether a provider is likely to pass or fail a peer review and the feedback given allows the service provider to improve their performance prior to a peer review. It also allows the provider to create a development plan that may help them achieve Preferred Supplier status.

Quality profiles

When a case concludes, service providers supply us with information relating to the outcome. Quality profile reports are then produced to allow an overview of case performance across each category of law. A provider can monitor the reports, see the changes in case outcomes and if necessary develop areas for improvement. It also allows the LSC to track key trends and investigate further if a provider appears to be out of profile with what would be expected. Quality profiles currently cover nine categories of law and six more are being developed.

Not-for-profit sector

The LSC's contracts with not-for-profit organisations, including contracts for immigration and asylum work, are now worth £78m. Not-for-profit contracts account for 29% of our annual Legal Help expenditure and constitute over 45% of our provision in social welfare law. The not-for-profit sector will continue to have an important role in our future strategy for the CLS. We are increasingly moving towards a position where the services we pay for are based on the needs of the client rather than the type of service provider. The high levels of under performance against contracted hours within the not-for-profit sector and the high average case lengths present a particular challenge. We will work with the not-for-profit sector to improve value for money and productivity so that it stands comparison with solicitor firms.

Over the last few years, we have funded a number of training initiatives aimed at helping not-for-profit organisations become more efficient and effective. As we move further towards the implementation of the CLS Strategy and the Preferred Supplier scheme, it becomes increasingly important that a robust method of auditing not-for-profit contracts is put in place to ensure that high quality advice and value for money is being achieved at all times.

We have worked to develop a new audit process for the not-for-profit sector in conjunction with representative bodies. In doing so we have refrained from imposing stringent cost and quality audits. The process was designed to encourage agencies to improve the quality and efficiency of the services they provide.

The new not-for-profit audit process was introduced in April 2006. Throughout the year, we assessed the performance of all not-for-profit providers against a series of risk indicators. Those identified as potentially high-risk or raising specific concerns were audited.

We met with the not-for-profit representative bodies throughout the year to discuss audit findings and are pleased with progress. We have also been engaging in discussions with not-for-profit providers about the Preferred Supplier scheme. The not-for-profit sector is a key part of the supplier base and we aim to help the sector to meet the challenges of the reform programme.

Contract review

Failure to improve performance standards may result in the LSC refusing or terminating a contract with a solicitor firm or a not-for-profit provider. If a provider does not agree with our decision, or where they allege we have breached the contract, a review process is available. There were 26 requests for contract review during 2005/06. Four of these requests were subsequently withdrawn, eight were resolved on internal review and 14 were referred to the Contract Review Body. Full details of the Contract Review Body decisions for 2005/06 will be available on the Commission's website www.legalservices.gov.uk from Summer 2006.

Quality standards for the Bar

As well as our ongoing work and planned initiatives to improve the quality of services provided by solicitors and not-for-profit agencies, we are working to further improve quality among barristers who do legal aid work. This was a key aspect of the Carter review (see page 32) and we look forward to consulting on any proposals aimed at driving up quality standards.

“Improving the quality of advice and representation is a key objective for the LSC, as receiving poor legal advice can be worse than not getting any advice at all.”



Corporate Priority 3

To deliver a sustainable scheme within the resources available and demonstrate real value to government in terms of effective financial control, improving value for money and positive outcomes for clients

Corporate targets 2005/06

Target	Status	Progress in 2005/06
<p>Implement and manage changes to the scope of, and remuneration mechanisms for, legal aid approved by the Government to improve value for money and enable legal aid to be delivered within our resources, saving £102m from the following initiatives:</p> <ul style="list-style-type: none"> • New focus for civil legal aid • Tailored fixed fees • CDS scope controls • Very High Cost Cases 	Achieved	By April 2006 we had achieved savings of over £120m through a series of initiatives that went wider than the original remit. The savings can be broken down as follows: £50.4m on work in the higher criminal courts; £34.8m on work in magistrates' courts and police stations; £10.1m on civil Licensed Work and £25.2m on civil Controlled Work.

Key milestones 2005/06 and expected date

Milestone	Status	Progress to date
Consideration of fixed fees for asylum work by January 2006	Achieved	We considered the introduction of fixed fees for asylum work in October 2005. We aim to consult on asylum remuneration (along with mental health and tailored fixed fees) following the publication of Lord Carter's final report, with a view to introducing a graduated fee scheme with new contracts in April 2007.
Identify new Crown Court funding arrangements during 2005	Changed	The timing of the project changed due to the Carter review, but we continue to work on new fee structures for solicitors.
Possible introduction of new Crown Court funding during 2006	Changed	As above.
Pilot CDS Direct by October 2005	Achieved	The pilot commenced on 31 October 2005. It operates nationally for those duty matters where advice is usually limited to telephone advice. In Merseyside and Boston (Lincolnshire) the pilot also covers all cases except for indictable-only offences where the time of interview is not known when the request for legal advice is made.
Propose new funding arrangements for police station work by the end of October 2005	Achieved	We produced a draft consultation paper of proposals for new funding arrangements in October 2005. However the scope of the work was subsumed into the work of the Carter review.
Re-introduce means testing and transfer responsibility for granting legal aid in magistrates' courts to the LSC during 2006 (timing dependent on the CDS Bill)	On track	The CDS Bill became an Act on 31 March 2006. The new legislation means that from 2 October 2006, a means test for criminal legal aid cases will be re-introduced and responsibility for the granting of criminal legal aid will be transferred from Her Majesty's Courts Service to the LSC.
Implement London competitive tendering during 2006/07 (subject to consultation)	Changed	Following the recommendations made by Lord Carter in his interim report on the procurement of criminal legal aid, this project will not go ahead in its existing form.

“Controlling costs and improving value for money is vitally important because the better value we can achieve, the more people we can help.”

Legal aid expenditure has increased substantially over the last 10 years. Controlling costs and improving value for money is vitally important to us because the better value we can achieve, the more people we can help. We have worked closely with Lord Carter’s review team and his recommendations will inform legal aid policy development during 2006/07.

Sustainability

Lord Carter’s review of legal aid procurement

In July 2005 the DCA published the conclusions of its fundamental legal aid review in *A Fairer Deal for Legal Aid*. One significant outcome was the commissioning of Lord Carter’s independent review of the procurement of publicly funded legal services. Lord Carter was asked to provide recommendations for reform of the way in which legal services are procured, with the aim of ensuring a sustainable system in the long term. The LSC has been a significant and active contributor to the review.

Lord Carter reported on his final proposals in July 2006. The conclusions of the review are available on the DCA website www.dca.gov.uk.

The Commission welcomes Lord Carter’s report, specifically the way he has built on the LSC’s existing direction of travel and the thinking in our Preferred Supplier scheme. There is no doubt that the Carter proposals will significantly influence the work of the LSC for some time to come. His recommendations will shape the future of legal aid procurement and we are working on a detailed and fully costed implementation plan.

Effective financial control

Legal aid impact test

In the past, legal aid expenditure has often been driven by policy decisions taken outside of the DCA, our sponsoring government department. We worked with the DCA during 2005/06 to drive the introduction of a legal aid impact test. This means that all government departments should analyse whether any proposed changes in policy will cause legal aid costs to rise, for example, any initiatives aimed at increasing the number of people arrested.

Funding Code reforms

In July 2004 the LSC launched a consultation paper *A New Focus for Civil Legal Aid*. Following on from this

consultation a wide range of reforms came into effect during 2005/06, including:

- the harmonisation of financial eligibility levels for almost all forms of legal aid (from April 2005)
- changes to *Funding Code* criteria to encourage early resolution of both family and non-family cases (from July 2005)
- reform of the statutory charge to encourage repayment of the charge and new powers to restrict legal aid for ancillary relief cases (from October 2005).

We remain confident that the reform package as a whole will produce approximately £56m savings over a three year period, although it is still too early to fully evaluate the impact of some of the reforms.

Early indications include a significant fall in the volume of new clinical negligence certificates issued, down from 5,673 in 2004/05 to 4,383 in 2005/06, a fall of 23% – this is as expected. We have also seen a sharp increase in the use of General Family Help, which covers early resolution of family cases compared to Legal Representation, which covers contested final family hearings. The proportion of private law children and financial certificates issued as General Family Help rose from 23.4% in 2004/05 to 46.9% in 2005/06.

Tailored fixed fees

Since April 2005 all civil Controlled Work (Legal Help), except immigration, some mental health work and family work undertaken by providers taking part in the FAlnS pilot, has been included in the tailored fixed fee scheme. Under the scheme, solicitors are paid a fixed fee per case based on their historic average case cost. The scheme is designed to help improve control over the budget by allowing the LSC and firms to plan more effectively. Having a set cost for a case allows the LSC to secure best value for money from our limited resources. It is estimated that £13.1m of savings have been delivered as a result of the scheme.

Cost assessments

The vast majority of civil Controlled Work falls within tailored fixed fees but for those cases that are not contained within the scheme, we have to make certain that service providers are claiming appropriately for the work they have undertaken. This is part of our work to ensure value for money when purchasing legal services.

With these cases, the LSC monitors bills and outcomes over a period of time. Where these are outside of a

provider's normal profile, a cost assessment audit may be ordered. This is an assessment of the amount of money being claimed. If the percentage of the claim that we provisionally deduct on audit is below 10%, the provider is rated as Category 1, between 10% and 20%, Category 2 and if the percentage of the claim is above 20%, the provider is rated as Category 3. Those providers with Category 3 results are given six months to improve their performance. If a second audit shows no improvement then their contract is terminated.

A total of 590 service providers were audited during 2005/06. The number of providers assessed as Category 3 was 254, a reduction from the 567 firms assessed as at 31 March 2006. Of these 254 firms, 143 no longer hold a contract with the LSC.

Controlling Very High Cost Cases (VHCCs)

The highest cost cases account for the majority of the legal aid budget and this balance is disproportionate in relation to the number of people these cases help. The LSC aims to help more people by controlling case costs.

Civil cases

To help control expenditure, the LSC manages civil cases where the costs are likely to exceed £25,000 under individual case contracts. During 2005/06 we contracted 918 VHCCs, and completed 674 cases. This brings the number of ongoing cases to 2,027 as at 31 March 2006, compared with 1,783 as at 31 March 2005.

In 2005/06 we authorised payment of £57m for VHCCs against a projected spend of £58m. £54m was spent on individual cases and £2.1m on multi-party actions. This is a saving of £17m in cash spend compared with the historic spend rate on high cost cases. Most importantly we secured £84m in damages for legal aid clients.

In the past, VHCCs have had a tendency to take between five to ten years to litigate. There are still some ongoing cases where costs have exceeded £25,000 which began being funded under the Legal Aid Act 1988. If a civil case wins, the costs are recovered from the opponents. During 2005/06 we recovered £18m net on individual cases and £0.2m on multi-party actions under the Legal Aid Act 1988. We obtained £457m in damages for legal aid clients.

Criminal cases

In September 2003 the LSC introduced individual case contracts on all Very High Cost Criminal Cases (VHCCCs)

for trials lasting more than 25 days. This was designed to control rising criminal defence expenditure and re-adjust the balance as a disproportionate amount of funding goes on a relatively small number of people.

Since August 2004 criminal cases with an expected trial length of 41 days or over have been contracted individually. The costs are agreed between the LSC and service providers at each key stage of the case. In 2005/06 the LSC contracted 414 VHCCCs, a decrease of 14% on 2004/05. The number of new contracts has reduced as cases with a trial length of 26 to 40 days are no longer placed under contract.

The LSC spent £103m on VHCCCs in 2005/06 compared to £96m in the previous year. The increase in spend results from cases that were taken on in previous years reaching their full running rate. VHCCCs take a considerable time to prepare and proceed to trial and so it has taken several years for the full workload, and consequent spending, to build up.

Contracting for VHCCCs has reduced spend on these cases by an estimated £40m per year compared to the previous 'ex-post facto' (after the event) assessment scheme. There was an additional £4m saving on the cases entering into the extended graduated fee scheme.

Crown Court remuneration changes

In October 2005 following extensive negotiations with the Bar and the Law Society, the Lord Chancellor introduced a package of measures to reduce expenditure in Crown Court cases.

These measures included an expansion of the advocate graduated fee scheme to include all cracked trials and guilty pleas, alongside a reduction in the differential between QC payment rates and 'other advocate' rates. The package also reduced the enhancement rates that solicitors are able to claim in serious fraud cases as well as abolishing enhancements for lesser offences. These measures support our ongoing work to control costs within criminal defence services.

CDS Act

At present everyone regardless of his or her financial means is entitled to advice and assistance or representation from a lawyer whenever they are required to attend an interview at a police station or (subject to passing an interests of justice test) appear in a criminal court.

The CDS Bill received Royal Assent on 31 March 2006 and the CDS Act 2006 will come into effect on 2

October 2006. The Act will re-introduce means testing in determining who should get representation in a magistrates' court.

This is based on government policy that people who are accused of a crime, but cannot afford to pay, are defended but those who can afford to pay for their defence should do so if convicted. Judges can order that an acquitted defendant's legal costs and expenses be recovered from central funds. The Act also transfers authority for granting criminal legal aid from the courts to the LSC.

The work will be governed by a Service Level Agreement between the LSC and Her Majesty's Courts Service.

Improving efficiency

Community Legal Service Direct

The CLS Strategy (see page 15) proposes an expansion of telephone services delivered through Community Legal Service Direct (see page 16) as part of the LSC's drive to improve value for money and deliver a sustainable scheme.

Community Legal Service Direct makes legal advice more easily available to clients, without the need for them to make an appointment with a face-to-face advice provider. This reduces barriers to advice, enabling people to take action at an earlier stage, before their problem becomes more serious, more complicated and therefore more expensive to resolve.

CDS Direct

The CDS Direct project has been developed as part of the LSC's ongoing work to improve value for money. Duty solicitors advise people held at police stations who require legal advice but do not choose their own solicitor. A pilot project for CDS Direct went live on 31 October 2005. This provides telephone advice to enhance the service already provided by the duty solicitor scheme. CDS Direct aims to reduce unnecessary call-outs for duty solicitors out of office hours and provide improved value for money.

The pilot has been operating in Merseyside and Boston (Lincolnshire) for all cases except for indictable-only offences (such as murder and rape) where the police say at the time of request that an interview is not scheduled within the next 90 minutes. It also operates nationally for less serious cases.

The service handled over 36,000 calls in its first six months with projected annual savings of over £0.5m.

Quality control

Measures we have taken to ensure that a robust system of quality control is in place for CDS Direct include:

- ensuring that all advisers have the Law Society's police station qualification and have passed an examination on police station law and procedure
- employment of a current duty solicitor with significant experience as the supervisor with the sole role of monitoring and improving quality
- continuing to examine how we can use peer review to assess the quality of CDS Direct advisers' work compared with that undertaken in private practice.

Benefits of CDS Direct

The pilot has the potential to deliver a number of benefits for solicitors, the police, the LSC and, most importantly, legal aid clients including:

- improved speed of contact with detained clients
- a reduction in the overall time that clients are held in detention
- increased value for taxpayers' money
- solicitors no longer being called out in the middle of the night when a client requests legal advice but no interview is planned until the next morning
- identification of problems in the police station process.

Speed of contact

For the first six months of the pilot:

- 94.9% of calls were attempted within 15 minutes of the request for legal advice against a target of 70%
- 98.8% of calls were attempted within 30 minutes of the request for legal advice against a target of 95%.

The pilot is now being fully evaluated and will be reviewed in the light of the final recommendations from the Carter review. If it has proven successful, a consultation paper will be issued later in 2006 and tenders will be sought to provide the service and roll it out.

Our administration budget

Alongside controlling costs on legal aid expenditure, we have also been working hard to improve efficiency and tighten financial controls within our own organisation.

Further information about our administration expenditure can be found in our management commentary on page 44.



CASE STUDY: Cerys Baker

Delivering quality and value for money

Cerys Baker works for Capita Insurance Services, a Community Legal Service Direct telephone advice provider. She is a Legal Adviser specialising in employment law and through the service, provides free legal advice and assistance to people eligible for public funding.

Many of the clients she talks to have lost their jobs, are under great stress and have financial difficulties. Cerys listens to the caller's problem and explains the law and how it might be able to help. She aims to resolve matters as quickly as possible by helping her clients get compensation or their jobs back.

Cerys recently advised a client who had been unfairly dismissed: "Mrs Jones had worked at a chemist for 18 months. She has a disabled son, and one day he came into the shop and caused a minor disturbance. Her employer dismissed Mrs Jones because of this incident, without giving her the opportunity to explain the situation.

"I advised Mrs Jones on her employment rights. As she had over 12 months' service and had not committed any offence, her employer should have allowed her the opportunity to defend herself. As a result, I advised that she had a claim for automatic unfair dismissal and began negotiating with Mrs Jones' employer. We agreed on a settlement figure before the claim went to an Employment Tribunal Hearing.

"Mrs Jones was extremely grateful to receive compensation, and she now has another job where she is very happy."

The telephone advice offered through Community Legal Service Direct means clients can easily access services without having to attend appointments with an adviser. Most matters dealt with by telephone conclude faster and cost less than face-to-face advice and the service is a key part of the LSC's drive to deliver high quality, value for money legal services.



Corporate Priority 4

To transform the organisation to enable it to deliver its objectives and excellence in all it does

Corporate targets 2005/06

Target	Status	Progress in 2005/06
Maintain overall customer service score at 85% whilst introducing more challenging targets for processing within the overall score	Achieved	The year-end score for the LSC as a whole was 91%. The regional office score was even higher at 96%. We also successfully introduced more challenging targets for processing legal aid applications.
Increase the extent to which the organisation sees itself as being inspired by strong, visible leaders	Partially achieved	Although we did not meet the specific internal measure for this target, which was extremely challenging, we can report that 77% of participants on the LSC's Leadership Development Programme achieved an increase in their average feedback rating during 2005/06. We also made further progress in terms of the visibility of leaders during the year – our Executive Team now meet in different regional offices each month, and our 2005 staff survey reported an increase in both the visibility and approachability of local senior management.
Increase the number of suppliers who submit their monthly claims online to 1,500 by April 2006	Achieved	The year-end figure was 1,950 and we had exceeded the target by December 2005. The achievement of this target means that providers receive an improved service and that we are in a better position to implement our Preferred Supplier scheme and other change initiatives.

Key milestones 2005/06 and expected date

Milestone	Status	Progress to date
Produce a vision for Service Delivery by Summer 2005	Partially achieved	We produced this vision in November 2005 and implementation is now part of the wider delivery transformation programme.
Develop e-business strategy during 2006	Achieved	Our e-business strategy was finalised in November 2005 and implementation is now part of the wider delivery transformation programme.
Launch of talent management system by December 2005	Achieved	The talent management system was launched in September 2005 and fully implemented in April 2006.



CASE STUDY: Jo Beddow

Transforming the way we work

Jo Beddow is the Marketing Manager for LSC Online – the LSC's electronic billing system. When Jo joined the team, the e-billing system was slow, no dedicated customer service was in place and few providers were signing up to use it. However, she was genuinely surprised to see how easy it was to use and realised that with a little more work, the product would be of great benefit to firms and agencies.

Jo began by working with the LSC's IT developers to make the service faster and the system more robust. She established a dedicated team providing telephone assistance to providers and followed this with a national marketing campaign promoting the system's benefits and features.

Following initial promotional activities, many providers started signing up to use online billing but Jo wanted to ensure they felt confident using the new technology. So, she and her team organised more than 70 training sessions around the country to introduce people to the service.

The sessions received excellent feedback and providers began using the online system in huge numbers. The number of firms joining LSC Online rose from around 30 new registrations a month before the events and peaked at 634 in September 2005.

The LSC's corporate target for online users by the end of the 2005/06 financial year was 1,500. Jo's team stayed focused on the target throughout the year and were very pleased to finish the year just shy of 2,000 users.

Jo says: "This has very much been a team effort on what we feel is a key project. If we look towards fully integrated e-business working relationships, we can eliminate form filling, reduce bureaucracy and leave providers to concentrate on delivering legal advice to their clients."

The LSC is committed to:

- equality and diversity, both as an employer and in the provision of legal services
- developing people to have the right skills and abilities to enable us to deliver our corporate objectives
- working with partners and providing good customer service
- communicating accurately and pro-actively
- effective financial planning and forecasting.

Our organisation and people

Efficient and effective management of our administration and our people is central to our role in administering access to justice across England and Wales. We recognise the importance of good communication and have been liaising closely with our sponsoring department, the DCA.

We are continuing with our leadership development programme and also launched a talent management programme, which is a new scheme to develop the potential of our staff and identify future senior executives. We also continued to monitor our performance against equalities legislation and more information on this is available in our equalities annual reports, available on the LSC website www.legalservices.gov.uk.

During 2005/06 much of our work around leadership, people and systems again focused on the structure of our organisation, following on from the restructuring started in 2004/05. Reshaping our structure is essential to delivering the challenging legal aid reform programme.

Organisation review and delivery transformation

We made considerable progress in transforming our organisation so that we can prepare to implement Lord Carter's proposals and the Preferred Supplier scheme and maximise the benefits to both the LSC and service providers. The delivery transformation programme will set out the new ways of working, both electronically and face-to-face, between the LSC and providers.

Aspects of the scheme include designing processes that allow Preferred Suppliers to adopt case management systems based around simpler electronic processes while allowing the LSC to intervene where appropriate. Long term, this is expected to result in reduced bureaucracy and administration savings. In 2005/06 we exceeded our target to increase the number of service providers who submit their monthly payment claims online to 1,500 by April 2006. By year-end 1,950 were submitting their claims using our online system.

Customer service and complaints

Table 7 demonstrates the process of escalating a complaint, from how many people make new complaints, to how many receive compensation and how many cases are referred to the Parliamentary Commissioner for Administration (PCA).

The LSC is continually improving customer service. We set a target to increase our customer service score for all business functions to 85% by 31 March 2006. We exceeded this target by achieving 91% at year-end. We believe our customer service performance is as good as any in the public sector.

We also set ourselves performance targets for business processing activities, such as processing applications and paying bills within a given time period. During 2005/06 we shortened the turnaround times for our applications processing work so that providers can help clients more quickly.

In Summer 2005 we surveyed over 6,500 providers of legal aid services across the country and received a 20% response rate. The results showed that over 80% found

LSC staff 'professional' and 'knowledgeable' and 90% rated staff as 'helpful' or 'very helpful', which was an improvement compared to the first survey in 2004.

While our customer service has been improving, the number of new complaints has been decreasing year-on-year. The LSC received 21% fewer new complaints in 2005/06 compared to 2004/05.

“We made considerable progress in transforming our organisation to maximise the benefits of Preferred Supplier for service providers and ourselves.”

Table 7: Complaints, compensation and PCA cases

	2005/06	2004/05
New complaints ¹ received	2,007	2,541
Total complaints closed out	1,959	2,390
Regional further complaints ² received	88	138
Total complaints closed out	80	115
Head office complaints received ³	512	501
Number that were not via a Member of Parliament or DCA	200	147
Total complaints closed out	488	379
Compensation cases received ⁴	226	236
Compensation cases decided	173	159
Compensation payments made	£257,537	£189,680
PCA statements of complaint	5	1
PCA preliminary enquiries	0	28
PCA complaints proceeding to statutory investigations ⁵	40	3

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

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

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

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

⁵ From April 2005, the PCA implemented a new procedure meaning that investigations include all of the cases on which the PCA has undertaken enquiries. This has meant that the numbers of complaints proceeding to statutory investigations have increased significantly.

Financial reports 2005/06

Contents

Directors' report	41
Management commentary	44
Remuneration report	50
Statement on internal control	56
A statement of the responsibilities of the Accounting Officer and of the Commission - CLS Fund and CDS	59
Certificate and report of the Comptroller and Auditor General to the Houses of Parliament - CLS Fund and CDS	60
CLS Fund and CDS financial statements	62
A statement of the responsibilities of the Accounting Officer and of the Commission - LSC administration	88
Certificate and report of the Comptroller and Auditor General to the Houses of Parliament - LSC administration	89
LSC administration financial statements	91
Accounts direction	114

Directors' report 2005/06

Introduction

For the purposes of this report, directors are defined as those who influence the decisions of the LSC as a whole, including non-executive Commissioners and the LSC's Executive Team. Non-executive Commissioners and members of the Executive Team who served during 2005/06 are set out in our remuneration report at page 50.

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

Statement of the accounts

The financial statements for the period 1 April 2005 to 31 March 2006 have been prepared in a form directed by the Lord Chancellor with the consent of the Treasury in accordance with paragraph 16 of Schedule 1 of the Act. The accounts direction is set out on page 114.

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.

Significant outside interests

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 separate register is maintained for the Executive Team. Copies of both registers are available on the Commission's website at www.legalservices.gov.uk.

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.

The 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 LSC's supplier base and criminal offending and civil justice.

The total research and development expenditure during the year amounted to £0.3m (2004/05: £1.1m) as reported in the financial statements. The figure has decreased from last year due to the completion of a number of projects such as the evaluation of the Public Defender Service and the Family Advice and Information Service pilots.

Equal opportunities and diversity

The LSC has a diverse workforce; in 2004/05, 11.0% were from a black or minority ethnic group, 2.3% declared a disability and 60.5% were women. Figures for 2005/06 will be published later in the year in our *Equalities Annual Report 2005/06*.

The LSC is committed to equality of opportunity both as an employer and in the provision of services. The LSC opposes all forms of discrimination and is committed to the principle that no job applicant or employee shall face discrimination. Nor does the LSC 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.

The LSC does not discriminate in its promotion, training and development of staff. Our employee assistance programme supports employees who have become disabled to continue their employment. The LSC's *Equality Scheme*, which can be found at www.legalservices.gov.uk, sets out our policies with regard to race, disability and gender. The Scheme identifies the LSC's principal functions relating to service provision and employment and includes commitments in respect of impact assessments, consultations, monitoring, access to information, training and complaints.

Directors' report 2005/06 (continued)

Employee involvement

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

A senior leadership group within the LSC was consulted on the objectives set for the organisation and on the development of 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 LSC's objectives to all staff, where everyone can ask questions and give their views. These meetings include discussion of the *Core Brief*, a short summary of key, high-level corporate news. The briefing session gives staff the chance to discuss and ask questions about organisational issues and to find out what this information means for them.

Reportable accidents

During 2005/06 there were no reportable accidents or occurrences under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995.

Pension liabilities

Details regarding the treatment of pension liabilities are set out in note 4 of the LSC administration 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 2005/06, grants of £1.0m were provided from the CLS Fund. Of this, £0.5m was paid for training and support; £0.5m for service development and £0.02m for not-for-profit management support.

Timeliness in paying bills

The LSC aims to collect receipts and promptly pay all properly authorised invoices in accordance with the terms of contracts or within 30 days. We paid 96% of properly authorised invoices within 30 days during 2005/06. We will continue to monitor progress on a monthly basis during 2006/07.

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. However, internal targets are set that relate to timely payment of these bills. Details of the percentage of bills paid on time are shown below.

Bills paid	Targets 2005/06	Performance 2005/06	Targets 2004/05	Performance 2004/05
Civil bills – taxed and assessed	8 weeks (100%)	96%	8 weeks (100%)	94%
Family Graduated Fee bills	8 weeks (100%)	99%	8 weeks (100%)	94%
Criminal non-standard fee	8 weeks (100%)	95%	8 weeks (100%)	99%

Directors' report 2005/06 (continued)

Auditors

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

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

Significant post year-end events

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

Likely future business developments

Likely future developments and how they will affect our business are set out in the management commentary on pages 44 to 49.

Signed for and on behalf of the Legal Services Commission

Brian Harvey OBE
Acting Chief Executive
3 July 2006

Management commentary 2005/06

Introduction

The Legal Services Commission (LSC) is a non-departmental public body responsible for the provision of legal aid in England and Wales.

Accounting standards

The financial statements for the LSC and the Community Legal Service (CLS) Fund and the Criminal Defence Service (CDS) are prepared in accordance with the Treasury's *Financial Reporting Manual* 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 accounts direction is set out on page 114.

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

Development and performance

Overview of the year

The LSC has had one of its most successful years on record. The arrival of a new Chair in April 2005 signified the start of a new course of direction for the LSC and much of our work this year has been on preparations for a period of significant change. We exceeded our targets in many of our key areas of work and we hope to build on our successes in 2006/07.

Progress in relation to corporate targets

Our corporate targets for 2005/06 are set out in our *Corporate Plan 2005/06-2007/08* and agreed with our sponsoring department, the DCA. Of the nine corporate targets that were set in 2005/06, we achieved or exceeded six and came very close to achieving another two. Further details of performance against targets are set out in tables throughout the annual report.

A key area of success related to our acts of assistance target. We surpassed our target of 650,000 acts of assistance by nearly 60,000, finishing the year with a total number of 708,510 acts of assistance. Exceeding this target demonstrates how we are making a real difference to legal aid clients, whilst remaining within our agreed financial settlement for Legal Help.

Forward look and future development

We constantly review the way that we conduct our business in order to achieve best value for money and provide the best quality services. Our targets for 2006/07 will be set out in our *Corporate Plan 2006/07-2008/09* to be published later in 2006. Many of the specific areas covered by our targets will remain the same as in 2005/06 but we aim to raise the measure of success. For example, our target for the number of acts of assistance will increase from 650,000 because we expect to be able to achieve more acts of assistance within the same budget as we begin to implement our new strategy for the CLS (see page 15 of the annual report).

Lord Carter's proposals for the procurement of criminal and civil legal aid services, (see page 32 of the annual report) will have an important impact on our work. The proposals will lead to a radical reform of the way legal aid services are purchased, building on our existing work, including the efficiency improvements that we have planned as a result of the Preferred Supplier scheme. By 2009, we propose to be working only with Preferred Suppliers (see page 26 of the annual report).

Our delivery transformation programme (see page 38 of the annual report) will mean changes to the way that we work with all service providers, such as using e-business and intervening less in applications and bills. The programme looks at what we need to do to create a more efficient, cost-effective system. The goal is to have as many of the new business processes as possible available to Preferred Suppliers by the time an exclusive scheme is introduced. However, it is likely to take around five years to complete the project and fully realise all of the benefits. The delivery transformation programme and Preferred Supplier scheme are interconnected. The Preferred Supplier scheme is expected to determine who we work with in the future and the delivery transformation programme will shape the way that we work with them.

We launched our CLS Strategy *Making Legal Rights a Reality* in March 2006 (see page 15 of the annual report). The strategy is a radical new approach to the way civil legal and advice services are funded, purchased and delivered and will affect the way that we co-ordinate the CLS in the future.

Management commentary 2005/06 (continued)

As we change the way that we do business with legal aid service providers, our workforce will reduce and as a result, we expect to make significant savings to our administration budget. We aim to achieve the decrease in our headcount by natural turnover and are working to ensure that staff are kept informed of developments.

Financial review

Results for the year – CLS Fund and CDS

The operating expenditure for the CLS Fund and CDS for the year was £1,820m (2004/05: £1,862m). This was split into £601m on the CLS and £1,219m on the CDS. The operating surplus for the year was £431m (2004/05: £466m) split into a surplus of £443m for the CLS and a deficit of £12m for the CDS. The net liabilities for the year were £1,682m (2004/05: £2,120m). The movement in tangible fixed assets for the CLS and CDS is set out in note 5 to the financial statements.

CLS Fund and CDS expenditure

CLS - other operating expenditure

Civil Representation - Other operating expenditure before the release of provision on dormant cases has increased by £125m. Aside from a movement in the provision for unbilled work of £89m, the increase in expenditure is largely due to the increased costs of family cases, mainly in relation to the new proceedings under the Children Act 1989 where there has been an increase in the number of cases and the cost of expert witnesses. We have a target to contain inflation in this area, however there is uncertainty over the impact that the *Review of the Child Care Proceedings System in England and Wales* will have on future expenditure. The level of any savings achieved will depend on the performance of local authorities and other external agencies over which we do not have direct control.

Other potential causes of upward pressures on our expenditure in the coming year include the implementation of the Civil Partnership Act 2004, the Adoption and Children Act 2002 as well as the partial and possible further implementation of the Domestic Violence, Crime and Victims Act 2004. We are closely monitoring these areas.

Legal Help - Expenditure has risen in line with expectations given the increase in the acts of assistance that we have reported for 2005/06. The expansion of Legal Help will continue to be tightly controlled, through efficiency gains and the expansion of Community Legal Service Direct.

The Mental Capacity Act 2005 is due to be implemented from April 2007. Though it will not affect expenditure in the coming year it is expected to add to costs in 2007/08 as more matters are dealt with under the Court of Protection.

Immigration - Expenditure on immigration and asylum has been reduced from last year's level as a result of the April 2004 legal aid reforms and the significant fall in the number of people seeking asylum. This has resulted in a reduction both in the volume and value of cases being completed. Our forecasts assume that the number of funded cases in 2006/07 will remain similar to 2005/06; however a recent increase in the use of deportation orders on national security grounds is forecast to lead to a small increase in costs next year.

CLS - other operating income

Compared to last year, our operating income is down by £32m. This is due to a reduction in the amount recoverable from damages and land charges and a reduction in costs recoverable. It is expected that the reduction will continue next year as the *Funding Code* changes from April 2005 take full effect (see page 32 of the annual report).

CDS - other operating expenditure

Crime Lower - The Statutory Charging initiative introduced by the Crown Prosecution Service has, through more appropriate charging, limited the increase in the number of magistrates' cases expected following the Government's focus on crime reduction. Total costs, however, have increased over last year, as there has been an increase in the number of clients receiving advice from solicitors attending at police stations and at magistrates' courts (see page 22 of the annual report).

Management commentary 2005/06 (continued)

The transfer of grant from magistrates' courts to the LSC and the re-introduction of means tests is scheduled for October 2006. In a full year this is expected to reduce the number of funded cases by up to 20%. It is estimated that provisions that increase magistrates' court sentencing powers in the Criminal Justice Act 2003, to be implemented in November 2006, will mean that approximately 10,000 extra cases a year will be retained in the magistrates' court. We would not expect a corresponding fall in Crown Court cases, as the capacity is likely to be filled with existing cases. Other initiatives are dependent on Lord Carter's final report on legal aid procurement.

Crime Higher - A number of initiatives are being undertaken to control Crime Higher costs. Counsel graduated fee schemes were extended in August 2004 and in October 2005 they were further extended to cover cracked trials and guilty pleas, so that now there are few exceptions to the graduated fee scheme. As a result of these measures, counsel expenditure is well controlled. Lord Carter has outlined the intention for solicitor costs in the Crown Court to be brought under a graduated fee scheme; this will further control costs going forward. Lord Carter's team is taking the lead in discussions with the Law Society regarding solicitor remuneration and a consultation process will follow Lord Carter's final report. There will also be a further review of advocate remuneration, which Lord Carter's team is addressing with the Bar Council.

Results for the year – LSC administration

The grant-in-aid applied to fund the expenditure of the Commission was £105.4m (2004/05: £98.5m). The operating surplus was £9.8m (2004/05: £6.3m) and net liabilities at year-end were £5.4m (2004/05: £22.1m). The movement in tangible fixed assets for the LSC is set out in note 6 to the financial statements.

Administration expenditure

Our resource budget allocation was initially £94m. The DCA subsequently advised us of a reduction in the allocation to £92m as part of a cost cutting package implemented across the DCA. Our actual resource expenditure on a comparable basis was £92.1m. This figure is before accounting for our pension schemes under

FRS 17 – *Retirement benefits*, and the charges for Crown Court work. Costs were up from £89.6m last year due mainly to costs incurred for external consultancy for the Preferred Supplier scheme, restructuring costs and increased property costs.

Our resource budget on a comparable basis for 2006/07 is £91m. The organisation will continue to look for further efficiency gains from tight control over staff numbers and non-staff costs.

Going concern

The going concern basis is set out in note 1m) and note 18 of the CLS Fund and CDS financial statements and in note 1m) and note 17 of the LSC administration financial statements.

Resource management in the CLS and CDS

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

Contributions for civil legal aid

Before civil legal aid is granted, applicants' financial means are tested. If they have sufficient money, they may be expected to contribute to the cost of their case. In 2005/06, 14% of all certificates issued required the applicant to pay a contribution. This is a decrease compared to 15.5% in 2004/05. Generally, these are paid in instalments. They are shown as contributions by funded clients in the appended CLS Fund and CDS financial statements (see note 3). The contributions receivable from funded clients in 2005/06 were £21m (2004/05: £24m).

Cost recovery through cost compliance auditing

We monitor the cost of cases through auditing activities. If an audit highlights that a service provider has been over-claiming, the LSC will investigate and where necessary recover the money. During 2005/06, £4.9m was identified for recovery from providers over-claiming in civil Legal Help cases. This was less than the £7.2m recovered in 2004/05. The decrease was due mainly to the introduction of tailored fixed fees and the corresponding decrease in auditing activity. There is no need to audit cases under the tailored fixed fee scheme

Management commentary 2005/06 (continued)

meaning that we only audit immigration cases, some mental health cases and cases that were started before the introduction of the scheme. In the future context of the proposed Preferred Supplier scheme and with the introduction of standard fees for other types of work, we anticipate that the current way we audit will be replaced.

Cost recovery through actions against solicitors and other government agencies

During the year we recovered significant sums of money from actions against solicitors and other government agencies where we believed that public money had been wasted in pursuit of a prosecution. Not only has this set a precedent as a matter of public policy, but it has also contributed significantly to controlling our costs.

Contract reconciliation

One of our corporate targets during 2005/06 was to reconcile claims to payments under each contract with service providers by April 2006 (see page 25 of the annual report). Having succeeded in reconciling the majority of payments to claims, our priority for 2006/07 is to recover overpayments and reduce our overall debt position.

Statutory charge and doubtful debt

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 LSC 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 by the other side (see note 10 of the CLS Fund and CDS financial statements).

The balance on statutory charge debt decreased from £260m in 2004/05 to £241m in 2005/06. As we have increasing confidence in our ability to collect this debt, owing to our ongoing data cleanse activity, we have reduced the level of bad debt provision on statutory charge debt.

Provision for amounts outstanding on funded cases

The effect on the operating expenditure of the release of provision on dormant cases is disclosed in note 4 of the CLS Fund and CDS financial statements. In 2005/06 £438m of provision was released that related to dormant cases (2004/05: £286m).

There are a proportion of cases open at any given time that, in the normal course of events, are unlikely to be billed. This may be for example because an intervention has taken place on the firm. These are termed 'dormant cases'. The LSC has set up a legacy project to investigate and close such cases where there has been no activity on the case for some time. The normal calculation of provision takes into account the number of open cases and the elapsed time on each case. For dormant cases the probability of a claim being submitted decreases the longer the case has been open and this is taken into account in the calculation of the provision value.

Special investigations

Our special investigations team, comprising of the Special Investigations Unit (SIU) and the Special Contract Support Unit, is responsible for conducting investigations into those legal aid applicants and service providers suspected of abusing the system.

In 2005/06, just under £1.2m was saved or recovered as a result of investigations into service providers. In addition during the year:

- four service providers had their contracts removed or limited in some way as a result of investigations
- eight individuals received notices prohibiting them from performing contract work for specified periods (normally two years)
- one provider was refused admittance to the Serious Fraud Panel as a result of issues arising from an earlier LSC investigation
- three service providers were referred to the Law Society's Consumer Complaints Service
- one service provider was referred to the Office of the Immigration Services Commissioner
- nine suppliers were subject to intervention by the Law Society as a result of referrals made by the LSC

Management commentary 2005/06 (continued)

- two disclosures were made to the National Criminal Intelligence Service in respect of potential criminal activity/money laundering not associated with legal aid.

An estimated £3m was saved as a result of investigations into civil legal aid applicants. Full investigations took place in 178 civil cases during 2005/06 and there were enquiries in a further 310 civil cases. In 92% of these cases, investigations led to the client being refused funding, or having funding withdrawn or an increase in the level of financial contributions payable.

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 liaises closely with the courts to determine whether a Recovery of Defence Costs Order should be made in particular cases.

During 2005/06, the value of Recovery of Defence Costs Orders was £2.1m, with £1.4m of this figure being a direct result of our SIU investigations. We collected £0.9m of this (which included £0.4m from SIU cases) and wrote off £0.2m (£0.1m from SIU cases). We are pursuing the remainder. In 2004/05 we collected £1.3m (£0.6m from SIU cases) and wrote off £0.2m (£0.1m from SIU cases).

Contractual arrangements

The LSC has contractual arrangements with legal aid service providers. Information about contracts with service providers can be found on page 18 of the annual report.

Environmental, social and community matters

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

A new *Employee Volunteering Policy* was approved in June 2005. This enables LSC employees to take a maximum of

42 hours a year as paid time off to devote to voluntary work. The Policy also invites staff who need to raise money in order to undertake their chosen activity to apply for sponsorship from the Commission.

The LSC is committed to reducing our impact on the environment. As part of their code of best practice, Commissioners have a responsibility for ensuring that the Commission operates sound environmental policies through a strategy developed in accordance with the Government's policy for *Greening Government Operations*. The LSC has an *Environmental Policy and Strategy* that is reviewed regularly, available at www.legalservices.gov.uk.

We recycle paper and have recycling bins in all offices. We are currently testing a new initiative in our London regional office; all floors will have mini recycling banks to recycle glass, plastic and cans. This will have increased hygiene and cost advantages, as well as meeting our environmental objectives. We plan to extend this project throughout all regional and head office buildings during 2006/07.

Equality and diversity

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. We published our third *Equalities Annual Report* on our website in Spring 2006. This inclusive approach has given us a head start in preparing for the new public duties to promote disability and gender equality coming into force in December 2006 and April 2007 respectively. We also updated our *Equality Scheme* during the year and published it online in early 2006. Further information about equal opportunities and diversity can be found in our directors' report on page 41.

Principal risks

Principal risks for the LSC at a corporate level that might affect our long-term position include:

- the failure to effectively manage high-level relationships with the DCA and Ministers and to comply with legislation

Management commentary 2005/06 (continued)

- the failure to control the CLS Fund and CDS expenditure and the LSC's administration expenditure within allocated limits
- the inability of the organisation to perform and deliver following the organisational review
- the failure to deliver legal services to meet CLS needs
- the failure to uphold the LSC's reputation, particularly through our customer service and communications strategies.

We continuously monitor these risks and our policy for managing risk is set out in our *Risk Management Statement*, which is available at www.legalservices.gov.uk. Our statement on internal control is set out on pages 56 to 58.

Signed for and on behalf of the Legal Services Commission

Brian Harvey OBE
Acting Chief Executive
3 July 2006

Remuneration report 2005/06

Introduction

This report has been prepared in accordance with the Companies Act 1985 section 243B and schedule 7A as interpreted by the Government's *Financial Reporting Manual 2005/06*. It summarises the Legal Services Commission's (LSC) policy on remuneration as it relates to our non-executive Commissioners and Executive Team. Biographical details of Commissioners and members of our Executive Team are set out on pages 8 to 10 of the annual report.

Brian Harvey served as Acting Chief Executive from June 2005 in the absence of the LSC's Chief Executive, Clare Dodgson, who was on long-term sickness leave. On 26 May 2006 we announced Clare Dodgson's departure, as it remained unclear when Clare would be able to return to work at the Commission. Under the terms of her contract the Chief Executive was entitled to compensation in line with the LSC's early severance and early retirement arrangements (see note 25 of the CLS Fund and CDS financial statements and note 25 of the LSC administration financial statements).

The two principal features of this report are:

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

Details of remuneration and benefits are set out in the tables within this report. The tables on pages 53 to 55 have been subject to audit by the external auditor, the Comptroller and Auditor General, appointed under the Access to Justice Act 1999.

Pay committee

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

- making decisions about individual performance bands and bonuses
- monitoring results by gender, ethnicity, disability and working pattern for equal opportunities purposes
- advising the Chief Executive and Executive Team on the quality of evidence and recommendations to aid continuous improvement of the Senior Civil Service equivalent performance management process.

Membership of the Pay Committee consists of three non-executive Commissioners and one independent member. The members do not have any day-to-day involvement in the running of the LSC. The four members of the Pay Committee in 2005/06 were:

Sir Michael Bichard (*Chair, and Chair of the Commission*)

Tina Fahm

Beryl Seaman CBE

Duncan Brown¹

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

Remuneration policy

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. All members of the Executive Team are employed on a permanent full-time basis. Dates that the Executive Team started at the Commission are set out on page 10 of the annual report. All members of the

¹ Independent member Duncan Brown is a leading expert on reward in the UK. He is Deputy Director of the Chartered Institute of Personnel and Development.

Remuneration report 2005/06 (continued)

Executive Team became members of the Executive Team when it was created on 1 June 2004 with the exception of David Godfrey who joined on 20 April 2005. Clare Dodgson, Brian Harvey, Richard Collins and Mike Jeacock were previously members of the LSC's Executive Board.

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

The value of salary and allowances paid to members of the Executive Team in 2005/06 is set out in table A on page 53. The other components of Executive Team remuneration are set out below:

Bonuses

All members of the Executive Team are eligible for a bonus up to a maximum of 20% of their individual salaries as part of their terms and conditions of employment. The approach to bonus payments for the Executive Team was changed in 2005/06. In previous years, bonus payments were 3-5% if performance met shared objectives overall and 6-10% if performance was in excess of shared objectives. The same arrangements applied for meeting and exceeding individual objectives.

The bonus scheme now places greater emphasis on the achievement of shared objectives. For 2005/06, achievement of each shared and individual objective was tied to a set percentage payment of either 1% or 2% of the total bonus pot. The amount is agreed by the Pay Committee and dependent on the importance of the objective. This means there is a clear link between effort and reward, and makes achieving bonus payments more demanding. The Executive Team's performance objectives, both shared and individual, are linked to

our corporate priorities set out in the *Corporate Plan 2005/06-2007/08*.

The process of assessing whether performance objectives are met is independently validated by the LSC's Head of Corporate Assurance. The value of the bonus for each member of the Executive Team is set out in table A on page 53 and is based on performance for the previous year.

Benefits in kind

As part of their remuneration package, Executive Team members are entitled to taxable benefits in kind. Benefits in kind may consist of a leased car, accommodation, reimbursement of travel expenses from home to office and subsistence. The value of benefits in kind for each member of the Executive Team is set out in table A on page 53.

Termination

The LSC does not operate a fixed policy on termination payments outside the provisions of its early retirement and early severance scheme. No such payments were made to members of the Executive Team during the financial year 2005/06.

Pensions

Members of the Executive Team, together with all other current employees, are invited to participate in the Commission's No. 4 Staff Pension and Life Assurance Scheme upon employment with the LSC. LSC employees contribute at the rate of 6.5% of basic annual salary. The amount that the LSC contributes is determined every three years by the scheme's actuary after assessment and valuation of the scheme. The LSC's contribution in 2005/06 was 26.1% of employees' salaries. During 2005/06, all members of the Executive Team were in the No. 4 Scheme. The LSC's pension scheme is a final salary scheme that is contracted out of the State Second Pension, an addition to the basic state pension. Executive Team pension costs are set out in table B on page 54.

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

Remuneration report 2005/06 (continued)

Non-executive Commissioners' remuneration

The Lord Chancellor appoints non-executive Commissioners and determines the policy regarding their remuneration. Although the Lord Chancellor appoints non-executive Commissioners with different time commitments, all members with the exception of the Chair are paid salaries at the same full-time equivalent rate. In 2005/06, this rate was calculated on the basis of £329 per day. The remuneration for Commissioners 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 Commissioner.

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

Commissioners' remuneration is based on judicial salaries. Increases to pay are based on the average increases paid to the judiciary. Revised judicial salary levels were introduced with effect from 1 April 2005 following the recommendations of the SSRB. The SSRB recommended an across-the-board increase of 3%, up from 2.5% for the previous year, for the judiciary. The Government accepted this recommendation. The value of the remuneration for each Commissioner is set out in table C on page 55.

Termination arrangements

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

Appointments

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

The members of the Commission during 2005/06 and details of their appointments are set out below:

	Date of appointment	Length of term (years)
Sir Michael Bichard (Chair)	1 April 2005	5
Angus Andrew	1 March 2004	3
David Edmonds CBE	1 March 2004	3
Anthony Edwards	1 April 2000 ¹	4
Tina Fahm	1 November 2004	3
Juliet Herzog	1 April 2000 ¹	4
Tom Jones OBE	1 March 2004	4
Lionel Joyce OBE	1 July 2005	3
Beryl Seaman CBE	1 July 2005	3
Dr Lily M Segerman-Peck	1 November 2004	3
Dr David Wolfe	1 October 2005	3

¹Renewed 1 April 2003

Signed for and on behalf of the Legal Services Commission

Brian Harvey OBE
Acting Chief Executive
3 July 2006

Remuneration report 2005/06 (continued)

Table A: Senior employees - employment costs

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

	Salary and allowances 2006 £000	Bonuses 2006 £000	Benefits in kind 2006 £000	Salary and allowances and bonuses 2005 £000	Benefits in kind 2005 £000
Clare Dodgson <i>Chief Executive</i>	172.1	15.9	-	175.3	-
Brian Harvey OBE (Acting Chief Executive from 1 June 2005) <i>Deputy/Acting Chief Executive</i>	153.2	12.5	-	139.7	-
Richard Collins <i>Executive Director for Policy and Planning</i>	111.1	11.0	-	114.4	-
David Godfrey (from 20 April 2005) <i>Executive Director for Corporate Services</i>	123.3	-	-	-	-
Mike Jeacock <i>Executive Director for Service Delivery</i>	148.9	11.3	30.8	133.8	38.3
Jonathan Lindley (from 1 June 2004) <i>Executive Director for Service Design</i>	127.1	10.0	26.2	110.0	15.6
Andy Grant (Member of the Executive Board to 31 May 2004) <i>Director, London</i>	-	-	-	29.3	-
Roger Hamilton (Member of the Executive Board to 31 May 2004) <i>Policy and Legal Director</i>	-	-	-	32.6	-
Tony Preston (Member of the Executive Board to 31 May 2004) <i>Business Systems Director</i>	-	-	-	26.9	-

Notes

Bonuses awarded relate to performance in the previous financial year.

Benefits in kind consist of a leased car and travel, subsistence and accommodation.

Benefits in kind for 2005 have been restated to exclude Employer's National Insurance costs previously included in the total.

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

Remuneration report 2005/06 (continued)

Table B: Senior employees - pension costs

	Total accrued pension at age 60 at 31 March 2006 and related lump sum £000	Real movement in pension related lump sum at age 60 £000	Cash equivalent transfer value at 31 March 2006 £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>	195	5	752	516	62	26
Brian Harvey OBE (Acting Chief Executive from 1 June 2005) <i>Deputy/Acting Chief Executive</i>	126	9	845	525	221	23
Richard Collins Executive Director for Policy and Planning	37	2	143	89	16	17
David Godfrey (from 20 April 2005) <i>Executive Director for Corporate Services</i>	5	-	21	-	-	18
Mike Jeacock <i>Executive Director for Service Delivery</i>	20	1	96	55	18	22
Jonathan Lindley (from 1 June 2004) <i>Executive Director for Service Design</i>	132	2	501	356	26	19
Andy Grant (Member of the Executive Board to 31 May 2004) <i>Director, London</i>	-	-	-	608	-	-
Roger Hamilton (Member of the Executive Board to 31 May 2004) <i>Policy and Legal Director</i>	-	-	-	1,001	-	-
Tony Preston (Member of the Executive Board to 31 May 2004) <i>Business Systems Director</i>	-	-	-	296	-	-

Although Clare Dodgson was an executive member of the Commission, Brian Harvey OBE as Acting Chief Executive was not appointed to the Commission. Executive membership of the Commission attracts no additional remuneration.

Remuneration report 2005/06 (continued)

Table C: Non-executive Commissioners' remuneration

The remuneration and expenses for non-executive Commissioners is shown below:

	Remuneration 2006 £000	Expenses 2006 £000	Total 2006 £000	Total 2005 £000
Sir Michael Bichard (from 1 April 2005) <i>Commissioner and Chair</i>	67	1	68	-
Angus Andrew <i>Commissioner</i>	16	3	19	15
David Edmonds CBE <i>Commissioner</i>	29	1	30	29
Anthony Edwards <i>Commissioner</i>	22	2	24	23
Juliet Herzog <i>Commissioner</i>	29	16	44	42
Tom Jones OBE <i>Commissioner</i>	29	17	46	43
Tina Fahm <i>Commissioner</i>	22	5	27	7
Dr Lily M Segerman-Peck <i>Commissioner</i>	14	1	16	7
Lionel Joyce OBE (from 1 July 2005) <i>Commissioner</i>	22	10	32	-
Beryl Seaman CBE (from 1 July 2005) <i>Commissioner</i>	22	10	31	-
Dr David Wolfe (from 1 October 2005) <i>Commissioner</i>	3	-	3	-
Philip Ely OBE (to 31 December 2004) <i>Commissioner and Chair</i>	-	-	-	51
Jim Shearer OBE (to 31 March 2005) <i>Commissioner and Acting Chair (from 1 January to 31 March 2005)</i>	-	-	-	42
Sheila Hewitt (to 30 September 2004) <i>Commissioner</i>	-	-	-	16
Yvonne Mosquito (to 31 March 2005) <i>Commissioner</i>	-	-	-	21
Margaret Richards (to 31 March 2005) <i>Commissioner</i>	-	-	-	35

Commissioners' remuneration for 2005 has been restated to exclude Employer's National Insurance costs previously included in the total.

The amount paid to Philip Ely in 2004/05 included £8,413 in respect of additional days worked before the financial year 2004/05. One non-executive Commissioner was paid £1,153 during 2005/06 for expenses incurred in 2004/05.

Statement on internal control 2005/06

Scope of responsibility

As Acting 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 LSC:

Structures

- a separation and clear distinction of the roles of Chair and Chief Executive
- an independent Commission, which comprises eleven non-executive members, including the Chair
- an Audit Committee with three non-executive members who provide an oversight and challenge role, which is attended by representatives from the Department for Constitutional Affairs (DCA) 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 Executive Team member with responsibility for corporate risk – the Executive Director for Service Design
- an external independent body as auditor.

Standards

- codes of conduct for both Commissioners and staff, which include guidelines on handling conflicts of interest. Both codes were updated during 2005/06 to reflect the latest standards and requirements
- a robust anti-fraud policy and fraud response plan
- a clear risk management statement which sets out our policy and strategy on risk.

Processes

- an annual risk-based internal audit programme
- recognised processes for delegated financial authorities
- high standards of financial reporting
- improved financial management for the administration fund, including Finance Managers in key business areas
- a continuous planning process and co-ordination of management performance and strategy reports
- effective risk management, co-ordinated by the Statement on Internal Control (SIC) Focus Group.

The LSC reports quarterly to the DCA on the management of risk. 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 meetings of the DCA's Departmental Management Board, which considers updates to the LSC's key risks on a monthly basis
- 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 Chairs
- the Commission's Chair meets monthly 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

Statement on internal control 2005/06 (continued)

in place in the LSC for the year ended 31 March 2006 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 Acting Accounting Officer, I am responsible and accountable for the overall operational management of the system, and I designate management responsibility for specific corporate risks to individual members of the Executive 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, projects/programmes or activity 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 opportunities to improve performance and quality of service when it is based on a fully rounded assessment of the long and short-term business implications.

The 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 April 2006 the Commission approved a revised risk management statement 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

Statement on internal control 2005/06 (continued)

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 2005/06, I sat on the DCA Ministerial Executive Board, as did the Chief Executive of HM Courts Service. The LSC is committed to end-to-end planning and assessment of whole system impacts.

Review of effectiveness

As Acting 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 Statement* in April 2006
- 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
- 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
- continuation of the quality assured environment through ISO 9001 re-accreditation for the next three years.

Specific actions to support the mitigation of risks during 2005/06 included:

- managing key player gaps such as my role as Acting Chief Executive and Acting Accounting Officer
- preparing for the implementation of the Preferred Supplier scheme, including by auditing not-for-profit organisations and increasing the number of providers using our e-business service
- minimising risk resulting from the transformation of the organisation, by maintaining good customer service and ensuring delivery of services to legal aid clients
- continuing regular communications and analysis with the DCA in relation to financial forecasting and budgeting
- demonstrating effective financial control over the administration budget.

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

Brian Harvey OBE

Acting Chief Executive

3 July 2006

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 Acting Chief Executive of the Commission – as the Commission's Acting Accounting Officer.

As the Commission's Acting 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 2005/06 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 2005/06 accounts) that is available to the public on the Commission's website.

Brian Harvey OBE
Acting Chief Executive
3 July 2006

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

I certify that I have audited the financial statements of the Legal Services Commission's Community Legal Service Fund and Criminal Defence Service for the year ended 31 March 2006 under the Access to Justice Act 1999. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Commission, Chief Executive and Auditor

The Commission and Accounting Officer are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of Treasury and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's and the Commission's responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of Treasury. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Commission has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 56 to 58 reflects the Commission's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Commission's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Annual Report, the unaudited part of the Remuneration Report, the Directors' Report and the Management Commentary. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

The maintenance and integrity of the Legal Services Commission's website is the responsibility of the Acting 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Commission and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Commission's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered

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

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of Treasury, of the state of the Commission's affairs as at 31 March 2006 and of its surplus for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Access to Justice Act 1999 and directions made 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
5 July 2006

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 2006

	Note	2006 CLS £000	2006 CDS £000	2006 Total £000	2005 CLS £000	2005 CDS £000	2005 Total £000
Grants	2	796,627	1,204,390	2,001,017	857,454	1,190,162	2,047,616
Other operating income	3	247,713	2,085	249,798	279,744	1,168	280,912
		1,044,340	1,206,475	2,250,815	1,137,198	1,191,330	2,328,528
Operating expenditure	4	(601,059)	(1,219,105)	(1,820,164)	(708,729)	(1,153,517)	(1,862,246)
Operating surplus/(deficit)	6	443,281	(12,630)	430,651	428,469	37,813	466,282
Interest receivable and similar income	7	8,141	-	8,141	6,573	-	6,573
Other finance costs	8	-	(34)	(34)	-	(3)	(3)
Cost of capital charge	1 f)	47,753	18,786	66,539	63,261	19,230	82,491
Surplus for the year		499,175	6,122	505,297	498,303	57,040	555,343
Reversal of cost of capital charge	1 f)	(47,753)	(18,786)	(66,539)	(63,261)	(19,230)	(82,491)
Retained surplus/(deficit) for the year	14	451,422	(12,664)	438,758	435,042	37,810	472,852

All income and expenditure are derived from continuing operations.

The notes on pages 66 to 87 form part of these financial statements.

Community Legal Service Fund and Criminal Defence Service Statement of recognised gains and losses

For the year ended 31 March 2006

	Note	2006 CLS £000	2006 CDS £000	2006 Total £000	2005 CLS £000	2005 CDS £000	2005 Total £000
Movement on government grant reserve	15	(334)	241	(93)	382	(55)	327
Recognised gains and losses for the financial year		(334)	241	(93)	382	(55)	327

The notes on pages 66 to 87 form part of these financial statements.

Community Legal Service Fund and Criminal Defence Service Balance sheet

At 31 March 2006

	Note	2006 CLS £000	2006 CDS £000	2006 Total £000	2005 CLS £000	2005 CDS £000	2005 Total £000
Fixed assets	5	48	582	630	382	341	723
Current assets							
Debtors	10	204,336	2,507	206,843	211,877	1,121	212,998
Cash at bank and in hand	9	3,046	894	3,940	30,722	62	30,784
		207,382	3,401	210,783	242,599	1,183	243,782
Creditors: amounts falling due within one year							
Other creditors	12	(65,294)	(2,926)	(68,220)	(54,598)	(5,124)	(59,722)
Net current assets/(liabilities)		142,088	475	142,563	188,001	(3,941)	184,060
Total assets less current liabilities		142,136	1,057	143,193	188,383	(3,600)	184,783
Provisions for liabilities and charges	13	(1,280,785)	(544,025)	(1,824,810)	(1,778,120)	(526,945)	(2,305,065)
		(1,138,649)	(542,968)	(1,681,617)	(1,589,737)	(530,545)	(2,120,282)
Capital and reserves							
Income and expenditure reserve	14	(1,138,697)	(543,550)	(1,682,247)	(1,590,119)	(530,886)	(2,121,005)
Government grant reserve	15	48	582	630	382	341	723
		(1,138,649)	(542,968)	(1,681,617)	(1,589,737)	(530,545)	(2,120,282)

Brian Harvey OBE

Acting Chief Executive and Acting Accounting Officer

3 July 2006

The notes on pages 66 to 87 form part of these financial statements.

Community Legal Service Fund and Criminal Defence Service Cash flow statement

For the year ended 31 March 2006

	Note	2006 CLS £000	2006 CDS £000	2006 Total £000	2005 CLS £000	2005 CDS £000	2005 Total £000
Net cash (outflow)/inflow from operating activities	17	(37,204)	1,325	(35,879)	6,128	(1,638)	4,490
Capital expenditure and financial investment		9,528	(493)	9,035	6,623	(124)	6,499
(Decrease)/increase in cash		(27,676)	832	(26,844)	12,751	(1,762)	10,989

The cash flow statement has been revised in line with the Treasury's *Financial Reporting Manual*.

The notes on pages 66 to 87 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 2006

Note 1 - Statement of accounting policies

These financial statements are prepared in accordance with the Treasury's *Financial Reporting Manual* 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 and fittings	5 years
Furniture and 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 receivable from funded clients and others for costs and, where appropriate, damages awarded. Expenditure comprises sums payable to legal aid service providers 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 aid service providers 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.

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

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% (2005: 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.

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

For the year ended 31 March 2006

Note 1 - Statement of accounting policies (continued)

h) Provisions

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

Provision is made for estimated dilapidation costs on leasehold buildings. The provision has been estimated with reference to the condition and location of the buildings and discounted at 2.2% (2005: 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 23 to these accounts.

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

m) Going concern

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

The future financing of the Commission's liabilities is met by grants from the Department for Constitutional Affairs voted on 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 2006

Note 2 - Grants

	2006 CLS £000	2006 CDS £000	2006 Total £000	2005 CLS £000	2005 CDS £000	2005 Total £000
Grant received from the DCA	795,975	1,204,631	2,000,606	857,530	1,190,107	2,047,637
Other grants	318	-	318	306	-	306
Government grant reserve movements						
Fixed asset acquisitions	(68)	(120)	(188)	(407)	(124)	(531)
Grant released/(deferred) for transfers	375	(375)	-	-	-	-
Released for depreciation	27	252	279	25	179	204
Released for disposal of fixed assets	-	2	2	-	-	-
	796,627	1,204,390	2,001,017	857,454	1,190,162	2,047,616

Note 3 - Other operating income

	2006 CLS £000	2006 CDS £000	2006 Total £000	2005 CLS £000	2005 CDS £000	2005 Total £000
Civil representation						
Contributions by funded clients	21,185	-	21,185	23,595	-	23,595
Costs recoverable	165,667	-	165,667	176,128	-	176,128
Recoveries from damages and statutory charge	60,576	-	60,576	79,609	-	79,609
	247,428	-	247,428	279,332	-	279,332
Civil Legal Help						
Costs recoverable	285	-	285	412	-	412
	285	-	285	412	-	412
Criminal cases						
Costs recoverable	-	5	5	-	1	1
Recovery of defence costs orders	-	2,080	2,080	-	1,167	1,167
	-	2,085	2,085	-	1,168	1,168
	247,713	2,085	249,798	279,744	1,168	280,912

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

For the year ended 31 March 2006

Note 4 - Operating expenditure

	2006 CLS £000	2006 CDS £000	2006 Total £000	2005 CLS £000	2005 CDS £000	2005 Total £000
Civil representation						
Solicitors' charges, counsel fees and disbursements	774,993	-	774,993	650,400	-	650,400
Refund of contributions	5,072	-	5,072	5,435	-	5,435
Costs of successful unassisted parties	1,685	-	1,685	1,299	-	1,299
Miscellaneous	7	-	7	9	-	9
	781,757	-	781,757	657,143	-	657,143
Release of provision on dormant cases	(438,004)	-	(438,004)	(286,037)	-	(286,037)
	343,753	-	343,753	371,106	-	371,106
Civil Legal Help						
Solicitors' charges, counsel fees and disbursements	162,472	-	162,472	145,285	-	145,285
Grants and similar	24,368	-	24,368	24,610	-	24,610
	186,840	-	186,840	169,895	-	169,895
Immigration and asylum						
Solicitors' charges, counsel fees and disbursements	70,281	-	70,281	83,374	-	83,374
Public Immigration Legal Services	58	-	58	61	-	61
Grants and similar	97	-	97	274	-	274
	70,436	-	70,436	83,709	-	83,709
	257,276	-	257,276	253,604	-	253,604

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

For the year ended 31 March 2006

Note 4 - Operating expenditure (continued)

	2006 CLS £000	2006 CDS £000	2006 Total £000	2005 CLS £000	2005 CDS £000	2005 Total £000
Criminal cases						
Solicitors' charges, counsel fees and disbursements - Crime Higher	-	693,692	693,692	-	647,270	647,270
Solicitors' charges, counsel fees and disbursements - Crime Lower	-	517,963	517,963	-	491,806	491,806
Public Defender Service	-	4,394	4,394	-	4,255	4,255
Loss on disposal of fixed assets	-	(2)	(2)	-	-	-
Release from government grant reserve relating to the disposal of fixed assets	-	2	2	-	-	-
Duty solicitor call service	-	3,007	3,007	-	2,514	2,514
	-	1,219,056	1,219,056	-	1,145,845	1,145,845
Bad debts written off and movement in doubtful debt provision (note 11)	30	49	79	84,019	7,672	91,691
	601,059	1,219,105	1,820,164	708,729	1,153,517	1,862,246

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 2006

Note 5 - Tangible fixed assets

Community Legal Service

	Fixtures and fittings £000	Furniture and equipment £000	Computer equipment £000	Total £000
Cost at 1 April 2005	350	42	15	407
Additions	14	14	40	68
Transferred to CDS	(355)	(44)	(15)	(414)
Cost at 31 March 2006	9	12	40	61
Depreciation at 1 April 2005	22	2	1	25
Charged in year	12	2	13	27
Transferred to CDS	(33)	(4)	(2)	(39)
Depreciation at 31 March 2006	1	-	12	13
Net book value at 31 March 2006	8	12	28	48
Net book value at 31 March 2005	328	40	14	382

All CLS assets relate to the Public Immigration Legal Service.

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

For the year ended 31 March 2006

Note 5 - Tangible fixed assets (continued)

Criminal Defence Service

	Fixtures and fittings £000	Furniture and equipment £000	Computer equipment £000	Total £000
Cost at 1 April 2005	619	60	212	891
Additions	70	13	37	120
Transferred from CLS	355	44	15	414
Disposals	-	-	(41)	(41)
Cost at 31 March 2006	1,044	117	223	1,384
Depreciation at 1 April 2005	394	25	131	550
Charged in year	192	20	40	252
Transferred from CLS	33	4	2	39
Disposals	-	-	(39)	(39)
Depreciation at 31 March 2006	619	49	134	802
Net book value at 31 March 2006	425	68	89	582
Net book value at 31 March 2005	225	35	81	341

All CDS assets relate to the Public Defender Service.

Note 6 - Operating surplus/(deficit)

	2006 CLS £000	2006 CDS £000	2006 Total £000	2005 CLS £000	2005 CDS £000	2005 Total £000
Operating surplus/(deficit) is stated after charging the following:						
Operating leases	-	390	390	-	381	381

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

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

For the year ended 31 March 2006

Note 7 - Interest receivable

	2006 CLS £000	2006 CDS £000	2006 Total £000	2005 CLS £000	2005 CDS £000	2005 Total £000
Interest arising on statutory charges	8,141	-	8,141	6,573	-	6,573

Note 8 - Other finance costs

	2006 CLS £000	2006 CDS £000	2006 Total £000	2005 CLS £000	2005 CDS £000	2005 Total £000
Discount on provisions	-	34	34	-	3	3

Note 9 - Analysis of net debt

	CLS £000	CDS £000	Total £000
Cash at bank and in hand			
At 1 April 2005	30,722	62	30,784
Cash flows	(27,676)	832	(26,844)
At 31 March 2006	3,046	894	3,940

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

For the year ended 31 March 2006

Note 10 - Debtors

	2006 CLS £000	2006 CDS £000	2006 Total £000	2005 CLS £000	2005 CDS £000	2005 Total £000
Contributions due from funded clients	19,770	-	19,770	21,681	-	21,681
Costs to be recovered	19,316	-	19,316	21,494	-	21,494
Statutory charge	240,782	-	240,782	259,672	-	259,672
Damages	15,289	-	15,289	15,226	-	15,226
Amounts due from service providers	60,019	7,941	67,960	57,828	7,985	65,813
Recovery of defence costs orders	-	2,412	2,412	-	1,430	1,430
Other debtors	197	-	197	549	-	549
Amounts due from the Legal Services Commission	-	259	259	-	-	-
	355,373	10,612	365,985	376,450	9,415	385,865
Provision for doubtful debts (note 11)	(151,037)	(8,105)	(159,142)	(164,573)	(8,294)	(172,867)
	204,336	2,507	206,843	211,877	1,121	212,998

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

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

For the year ended 31 March 2006

Note 10 - Debtors (continued)

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

The gross amounts secured by a charge against property were:

	2006 CLS £000	2006 CDS £000	2006 Total £000	2005 CLS £000	2005 CDS £000	2005 Total £000
Statutory charge on damages	191,836	-	191,836	209,685	-	209,685
Accrued interest to date	48,946	-	48,946	49,987	-	49,987
	240,782	-	240,782	259,672	-	259,672

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 2006

Note 11 - Doubtful debt provision

	2006 CLS £000	2006 CDS £000	2006 Total £000	2005 CLS £000	2005 CDS £000	2005 Total £000
At 1 April 2005	164,573	8,294	172,867	102,315	861	103,176
Debts written off	(13,566)	(238)	(13,804)	(21,761)	(239)	(22,000)
Irrecoverable contributions from funded clients	6,543	92	6,635	10,967	93	11,060
Irrecoverable costs	4,737	-	4,737	4,291	-	4,291
Other provision movements	(11,250)	(43)	(11,293)	68,761	7,579	76,340
Charge to income and expenditure account	30	49	79	84,019	7,672	91,691
At 31 March 2006	151,037	8,105	159,142	164,573	8,294	172,867

Note 12 - Creditors

	2006 CLS £000	2006 CDS £000	2006 Total £000	2005 CLS £000	2005 CDS £000	2005 Total £000
Amounts falling due within one year						
Other creditors						
Amounts due to solicitors, counsel and advice agencies	62,379	2,834	65,213	53,029	4,838	57,867
Contribution refunds due to funded clients	273	-	273	310	-	310
Amounts due to the Legal Services Commission	1,273	-	1,273	900	-	900
Accruals and deferred income	1,369	92	1,461	359	286	645
	65,294	2,926	68,220	54,598	5,124	59,722

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

For the year ended 31 March 2006

Note 13 - Provisions for liabilities and charges

	CLS £000	CDS £000	Total £000
Provision for amounts outstanding on funded cases			
At 1 April 2005	1,778,120	526,645	2,304,765
Additions and increases to provision	1,007,746	1,211,655	2,219,401
Amounts used in the period	(1,067,077)	(1,194,523)	(2,261,600)
Unused amounts reversed in the period	(438,004)	-	(438,004)
At 31 March 2006	1,280,785	543,777	1,824,562
Provision for dilapidations			
At 1 April 2005	-	300	300
Additions and increases to provision	-	5	5
Amounts used in the period	-	-	-
Unused amounts reversed in the period	-	(91)	(91)
Finance charges	-	34	34
At 31 March 2006	-	248	248
At 31 March 2006	1,280,785	544,025	1,824,810
At 31 March 2005	1,778,120	526,945	2,305,065

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 2007 and 2019 as the leases expire.

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

For the year ended 31 March 2006

Note 14 - Income and expenditure reserve

	CLS £000	CDS £000	Total £000
At 1 April 2005	(1,590,119)	(530,886)	(2,121,005)
Retained surplus/(deficit) for the year	451,422	(12,664)	438,758
At 31 March 2006	(1,138,697)	(543,550)	(1,682,247)

Note 15 - Government grant reserve

	CLS £000	CDS £000	Total £000
At 1 April 2005	382	341	723
Grant deferred for additions	68	120	188
Grant (released)/deferred for transfers	(375)	375	-
Released for depreciation	(27)	(252)	(279)
Released for disposal of fixed assets	-	(2)	(2)
At 31 March 2006	48	582	630

Note 16 - Gross cash flows

	2006 CLS £000	2006 CDS £000	2006 Total £000	2005 CLS £000	2005 CDS £000	2005 Total £000
Interest received	9,182	-	9,182	7,030	-	7,030

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

For the year ended 31 March 2006

Note 17 - Reconciliation of operating surplus/(deficit) to net operating cash flows

	2006 CLS £000	2006 CDS £000	2006 Total £000	2005 CLS £000	2005 CDS £000	2005 Total £000
Operating surplus/(deficit)	443,281	(12,630)	430,651	428,469	37,813	466,282
Depreciation charges and transfers	(12)	252	240	25	179	204
Government grant reserve movement	(334)	241	(93)	382	(55)	327
Other finance charges	-	(34)	(34)	-	(3)	(3)
Decrease/(increase) in debtors	6,500	(1,386)	5,114	48,761	274	49,035
Increase/(decrease) in creditors	10,696	(2,198)	8,498	8,447	692	9,139
(Decrease)/increase in provisions	(497,335)	17,080	(480,255)	(479,956)	(40,538)	(520,494)
Net cash (outflow)/inflow from operating activities	(37,204)	1,325	(35,879)	6,128	(1,638)	4,490

Note 18 - Going concern

The balance sheet at 31 March 2006 shows an excess of liabilities over assets of £1,682m.

The Acting 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 19 - Contingent liabilities

A provision is made for amounts outstanding on funded cases at the balance sheet date. The Commission recognises that there is a continuing obligation to fund cases past the balance sheet date but the amount of the liability is dependent on the future outcome of each case. It is estimated that this liability is in the order of £1,800m (31 March 2005: £2,400m).

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

For the year ended 31 March 2006

Note 20 - Commitments under operating leases

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

	2006 CLS £000	2006 CDS £000	2006 Total £000	2005 CLS £000	2005 CDS £000	2005 Total £000
Operating leases which expire:						
Within one year - land and buildings	-	11	11	-	-	-
Within one year - other	-	1	1	-	1	1
Between two to five years - land and buildings	-	35	35	-	-	-
Between two to five years - other	-	45	45	-	45	45
Over five years - land and buildings	-	259	259	-	331	331
	-	351	351	-	377	377

Operating leases shown in this note relate to the Public Defender Service.

Note 21 - 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 Commission has declared below any immediate connection between the Community Legal Service Fund or the Criminal Defence Service and Ministers at the Department or their close family, or the organisations with which the Ministers or their close family are associated. The Legal Services Commission has also had various material transactions with the Courts Service, an agency of the Department for Constitutional Affairs, relating to work provided by the Courts Service on behalf of the Commission.

During 2005/06, the Legal Services Commission entered into a number of material transactions with some Commission members, other related parties or their close family members. 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 Criminal Defence Service and these members, or the organisations with which the members are associated, have been declared below.

Unless otherwise stated, the disclosures relate to transactions in respect of funded work and do not reflect an individual's earnings. The figures include payments on account and disbursements which may be payable to third parties and are stated inclusive of VAT, as this is a cost to the Commission. All transactions are for the period 1 April 2005 to 31 March 2006 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 2005/06 but not yet billed.

The Regional Legal Services Committees were disbanded on 31 March 2006. All committee membership ended on this date or earlier as indicated in the declarations.

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

For the year ended 31 March 2006

Note 21 - Related party transactions (continued)

Commissioners are required under the *Code of Best Practice for Members of the Legal Services Commission* 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.

Department for Constitutional Affairs Ministers and related parties

Marianna Hildyard QC	The Legal Services Commission is continuing payments to Marianna Hildyard, a barrister who receives payments in respect of legal aid casework. Ms Hildyard is married to Lord Falconer, Secretary of State for Constitutional Affairs.	£126,404
Sarah Harman	Harman and Harman is a legal services contracted firm of solicitors in which Sarah Harman is head of the family law department. Sarah Harman is the sister of Harriet Harman the then Legal Aid Minister.	£6,789 16 March 2006 to 31 March 2006

Legal Services Commission members and related parties

Angus Andrew	Osbornes is a legal services contracted firm of solicitors to which Angus Andrew was a non-practising consultant.	£1,263,106
Anthony Edwards	T.V. Edwards is a legal services contracted firm of solicitors of which Anthony Edwards is the senior partner.	£2,092,341
Juliet Herzog	(1) Silverbeck Rymer is a legal services contracted firm of solicitors in which Juliet Herzog was a consultant.	£4,714 1 April 2005 to 16 September 2005
	(2) Davies Wallis Foyster is a legal services contracted firm of solicitors in which Juliet Herzog was a consultant. The debt arose as repayable payments on account exceeded the total payments made to Davies Wallis Foyster in the period. The LSC is pursuing the balance through its routine account balancing activities.	£(5,959) 19 September 2005 to 31 March 2006
Dr David Wolfe (from October 2005)	David Wolfe is a barrister who receives payments in respect of legal aid casework.	£49,861 1 October 2005 to 31 March 2006

Regional Legal Service Committee (RLSC) members and related parties

London RLSC

Lawrence Lupin (until February 2006)	Lawrence Lupin Solicitors Ltd is a legal services contracted firm of solicitors of which Lawrence Lupin is the managing director.	£1,608,936 1 April 2005 to 28 February 2006
Steve Johnson	Walthamstow Citizens Advice Bureau is a legal services contracted advice bureau of which Steve Johnson is the manager.	£121,946

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

For the year ended 31 March 2006

Note 21 - Related party transactions (continued)

London RLSC (continued)

Elizabeth Rantzen	Shelter is a legal services contracted charity of which Elizabeth Rantzen is a trustee, chair of the finance committee and vice chair.	£316,382
-------------------	--	----------

South Eastern RLSC

Monica Ford QC	Monica Ford is a barrister who receives payments in respect of legal aid casework.	£4,333
----------------	--	--------

South Western RLSC

Brian Ellis	Mustoe Shorter Solicitors is a legal services contracted firm of solicitors in which Brian Ellis is the practice manager.	£1,179,932
-------------	---	------------

Chris Hart	Hooper and Wollen Solicitors is a legal services contracted firm of solicitors of which Chris Hart is a managing partner.	£772,678
------------	---	----------

Monica Carrier	South Somerset Citizens Advice Bureau is a legal services contracted advice bureau of which Monica Carrier is the manager.	£67,042
----------------	--	---------

Wales RLSC

Roy Morgan (until February 2006)	Morgans Solicitors is a legal services contracted firm of solicitors of which Roy Morgan is a solicitor and principal.	£1,356,138 1 April 2005 to 28 February 2006
-------------------------------------	--	---

West Midlands RLSC

Mark Lister (until March 2006)	(1) Whatley Recordon is a legal services contracted firm of solicitors in which Mark Lister was a solicitor.	£147,695 1 April 2005 to 30 September 2005
-----------------------------------	--	--

	(2) Lister Brady is a legal services contracted firm of solicitors in which Mark Lister is a solicitor.	£70,000 1 October 2005 to 5 March 2006
--	---	--

Jeremy Vanes	Wolverhampton Citizens Advice Bureau is a legal services contracted advice bureau at which Jeremy Vanes is the chief executive.	£518,443
--------------	---	----------

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

For the year ended 31 March 2006

Note 21 - Related party transactions (continued)

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.	£19,742
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.	£32,831
Joanne Pickering	Forbes Solicitors is a legal services contracted firm of solicitors in which Joanne Pickering is a specialist quality mark co-ordinator.	£1,394,378
Stuart Turner	Lonsdales Solicitors is a legal services contracted firm of solicitors in which Stuart Turner is a solicitor.	£445,740

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 culture and leisure for Durham County Council.	£39,184
Professor Hugh Brayne (from May 2005)	The Commission manages and administers the financial budget on behalf of the National Occupational Standards project. A number of organisations including the Commission contributed to the overall funding of this project. Payment was made by the project to Hugh Brayne, a consultant on legal education and legal services, in respect of undertaking research of the foundation degree framework for the National Occupational Standards project.	£72,200 1 May 2005 to 31 March 2006
Bernard Pidcock	Blyth Valley Citizens Advice Bureau is a legal services contracted advice bureau of which Bernard Pidcock is a manager.	£125,364
Kathy Webb	Kathy Webb & Co Solicitors is a legal services contracted firm of solicitors in which Kathy Webb is a consultant.	£600,196

Yorkshire & Humberside RLSC

Tim Durkin (from August 2005)	Myer Wolff is a legal services contracted firm of solicitors in which Tim Durkin is a senior partner.	£1,151,097 1 August 2005 to 31 March 2006
Paddy Mayes (until October 2005)	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.	£132,581 1 April 2005 to 31 October 2005

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

For the year ended 31 March 2006

Note 21 - Related party transactions (continued)

East Midlands RLSC

Angela Donen	(1) Bryan & Armstrong Solicitors is a legal services contracted firm of solicitors in which Angela Donen is a partner.	£636,801
	(2) AB Mediation is a legal services contracted mediation supplier in which Angela Donen is a manager.	£168,000
Daphne Wing MBE	Chesterfield Citizens Advice Bureau is a legal services contracted advice bureau of which Daphne Wing is chief executive.	£117,583

Eastern RLSC

Keith Bennett (until February 2006)	(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.	£79,992 1 April 2005 to 28 February 2006
	(2) Cambridge Independent Advice Centre (CIAC) is a legal services contracted advice centre at which Keith Bennett is chief executive.	£209,778 1 April 2005 to 28 February 2006
	(3) Huntingdon Independent Advice Centre is a sub-project of CIAC for which Keith Bennett is project co-ordinator.	£99,297 1 April 2005 to 28 February 2006
Joanna Chimes	Hatch Brenner is a legal services contracted firm of solicitors in which Joanna Chimes is a solicitor.	£1,374,742
Kate Taylor (from September 2005)	Fisher Jones Greenwood is a legal services contracted firm of solicitors in which Kate Taylor is an equity partner.	£526,113 1 September 2005 to 31 March 2006

Merseyside RLSC

Sara Murray	James Murray Solicitors is a legal services contracted firm of solicitors in which Sara Murray is a practice director.	£1,331,032
Paul Witter	Roberts Moore Nicholas Jones Solicitors is a legal services contracted firm of solicitors in which Paul Witter is the practice manager.	£1,679,217

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

For the year ended 31 March 2006

Note 22 - 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 a grant received from the Department for Constitutional Affairs. As such, it is not exposed to significant liquidity risks.

Interest rate risk

Money received by the Community Legal Service Fund on behalf of funded clients is held on deposit until the case is concluded. Interest is paid to funded clients by reference to the London Inter Bank Offered Rate (LIBOR). To offset the interest payable, £33.2m 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 12 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 the Commission is not exposed to any significant foreign currency risks.

Financial assets

	Fixed rate financial assets £000	Floating rate financial assets £000	Total £000	Weighted average interest rate %
Currency				
Sterling	-	3,940	3,940	4.1
At 31 March 2006	-	3,940	3,940	4.1
Sterling	-	30,784	30,784	4.1
At 31 March 2005	-	30,784	30,784	4.1

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

For the year ended 31 March 2006

Note 22 - Financial instruments (continued)

Financial liabilities

	Fixed rate financial liabilities £000	Financial liabilities on which no interest is paid £000	Total £000	Weighted average interest rate %
Currency				
Sterling	248	1,824,562	1,824,810	2.2
At 31 March 2006	248	1,824,562	1,824,810	2.2
Sterling	300	2,304,765	2,305,065	3.5
At 31 March 2005	300	2,304,765	2,305,065	3.5

Fair values

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

Cash at bank and in hand

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

Provisions for liabilities and charges

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

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

For the year ended 31 March 2006

Note 23 - Third party assets

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

	31 March 2005 £000	Gross inflows £000	Gross outflows £000	31 March 2006 £000
Third party assets	38,529	62,602	(66,861)	34,270

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 2006 £000	31 March 2005 £000
Cash	1,328	-
Fixed deposits	-	539
Certificates of deposit	32,942	37,990
	34,270	38,529

Note 24 - Accountability notes

Losses statement

There were 11,683 (2005: 33,249) cases involving losses totalling £13.8m (2005: £22.0m) (see note 11).

Note 25 - Post balance sheet events

On 26 May 2006 it was announced that Clare Dodgson, the Chief Executive and Accounting Officer, was leaving the Legal Services Commission. Brian Harvey OBE has been Acting Chief Executive and Acting Accounting Officer in her absence and her departure is not expected to cause any operational disruption to the Legal Services Commission.

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 Acting Chief Executive of the Commission – as the Commission's Acting Accounting Officer.

As the Commission's Acting 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 2005/06 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 2005/06 accounts) that is available to the public on the Commission's website.

Brian Harvey OBE
Acting Chief Executive
3 July 2006

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

I certify that I have audited the financial statements of Legal Services Commission for the year ended 31 March 2006 under the Access to Justice Act 1999. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Commission, Chief Executive and Auditor

The Commission and Accounting Officer are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of Treasury and for ensuring the regularity of financial transactions. These responsibilities are set out in the statement of Accounting Officer's and the Commission's responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of Treasury. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the Commission has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages 56 to 58 reflects the Commission's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Commission's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Annual Report, the unaudited part of the Remuneration Report, the Directors' Report and the Management Commentary. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

The maintenance and integrity of the Legal Services Commission's website is the responsibility of the Acting 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Commission and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Commission's circumstances, consistently applied and adequately disclosed.

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

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of Treasury, of the state of the Commission's affairs as at 31 March 2006 and of its surplus for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Access to Justice Act 1999 and directions made 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
5 July 2006

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 2006

	Note	2006 £000	2005 £000
Grant-in-aid	2	105,388	98,454
Other operating income		155	296
		105,543	98,750
Employment costs	3, 4	(57,429)	(54,013)
Depreciation	6	(2,384)	(1,777)
Other operating charges	7	(35,902)	(36,636)
Operating surplus	8	9,828	6,324
Interest receivable and similar income	9	1,253	1,164
Interest payable and similar charges	10	(1,651)	(1,612)
Other finance costs	11	(816)	(963)
Cost of capital charge	1 f)	482	646
Surplus for the year		9,096	5,559
Reversal of cost of capital charge	1 f)	(482)	(646)
Retained surplus for the year	16	8,614	4,913

All income and expenditure are derived from continuing operations.

The notes on pages 95 to 113 form part of these financial statements.

Legal Services Commission

Statement of recognised gains and losses

For the year ended 31 March 2006

	Note	2006 £000	2005 £000
Movement on government grant reserve	2, 16	92	3,807
Actuarial gain/(loss) recognised in the pension scheme	4, 16	7,953	(15,988)
Recognised gains and losses for the financial year		8,045	(12,181)

The notes on pages 95 to 113 form part of these financial statements.

Legal Services Commission

Balance sheet

At 31 March 2006

	Note	2006 £000	2005 £000
Fixed assets	6	7,812	7,720
Current assets			
Debtors	14	12,637	5,263
Cash at bank and in hand	13	2,639	833
		15,276	6,096
Creditors: amounts falling due within one year	15	(11,585)	(3,386)
Net current assets		3,691	2,710
Total assets less current liabilities		11,503	10,430
Provision for liabilities and charges	20	(6,506)	(5,917)
Net assets excluding pension liability		4,997	4,513
Pension liability	4	(10,439)	(26,614)
Net liabilities including pension liability		(5,442)	(22,101)
Capital and reserves			
Income and expenditure reserve	16	(13,254)	(29,821)
Government grant reserve	16	7,812	7,720
		(5,442)	(22,101)

Brian Harvey OBE

Acting Chief Executive and Acting Accounting Officer

3 July 2006

The notes on pages 95 to 113 form part of these financial statements.

Legal Services Commission

Cash flow statement

For the year ended 31 March 2006

	Note	2006 £000	2005 £000
Net cash inflow from operating activities	12	4,706	3,675
Returns on investments and servicing of finance	12	(440)	(531)
Capital expenditure	12	(2,460)	(4,943)
Increase/(decrease) in cash	13	1,806	(1,799)

The cash flow statement has been revised in line with the Treasury's *Financial Reporting Manual*.

The notes on pages 95 to 113 form part of these financial statements.

Legal Services Commission

Notes to the financial statements

For the year ended 31 March 2006

Note 1 - Statement of accounting policies

These financial statements are prepared in accordance with the Treasury's *Financial Reporting Manual* 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 and fittings	5 years
Furniture and 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% (2005: 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.

The Commission also receives interest on bank balances and on third party deposit accounts for funded clients. Bank interest is paid over to the Department for Constitutional Affairs; excess interest on deposit accounts for funded clients is retained as agreed with the Department for Constitutional Affairs. 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

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

Legal Services Commission

Notes to the financial statements (continued)

For the year ended 31 March 2006

Note 1 - Statement of accounting policies (continued)

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.

k) Accounting for value added tax

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

l) Pensions

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

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

m) Going concern

The Legal Services Commission is a statutory body established under the Access to Justice Act 1999. The Commission is charged with the responsibility for managing and accounting for the Community Legal Service Fund and the Criminal Defence Service both of which are legal aid schemes provided for under the Access to Justice Act 1999. The Commission takes the view that the going concern concept applies 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 2006

Note 2 - Grant-in-aid

	2006 £000	2005 £000
Grant-in-aid	97,960	95,921
Grant-in-aid: Her Majesty's Courts Service Service Level Agreement	7,520	6,340
Government grant reserve movements		
Fixed asset additions	(2,494)	(5,423)
Depreciation	2,384	1,616
Disposal of fixed assets	18	-
	105,388	98,454

Note 3 - Employment costs

The Employment costs note has been revised in line with the Treasury's *Financial Reporting Manual*.

	Permanently Employed Staff £000	Other £000	2006 £000	Permanently Employed Staff £000	Other £000	2005 £000
Aggregate payroll costs were as follows:						
Salaries and wages	43,432	3,320	46,752	41,567	3,518	45,085
Social security costs	4,874	110	4,984	4,858	108	4,966
Other pension costs	5,114	-	5,114	3,407	-	3,407
	53,420	3,430	56,850	49,832	3,626	53,458
Commissioners' costs:						
Remuneration as executives	188	-	188	175	-	175
Fees to non-executives	340	-	340	331	-	331
Social security costs	51	-	51	49	-	49
	579	-	579	555	-	555
	53,999	3,430	57,429	50,387	3,626	54,013

Legal Services Commission

Notes to the financial statements (continued)

For the year ended 31 March 2006

Note 3 - Employment costs (continued)

Other pension costs are the total operating charges on the Pension Schemes which includes non-permanent employees and employees of the Community Legal Service Fund and Criminal Defence Service as well as the Legal Services Commission.

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 as a member of the Commission received no additional remuneration as a Commissioner.

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

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

	Permanently Employed Staff	Other	2006	Permanently Employed Staff	Other	2005
Policy & Planning	74	6	80	68	14	82
Service Design	49	6	55	40	8	48
Service Delivery	1,254	87	1,341	1,293	81	1,374
Corporate Services	205	25	230	205	33	238
	1,582	124	1,706	1,606	136	1,742
Commissioners	10	-	10	10	-	10
	1,592	124	1,716	1,616	136	1,752

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

PDS and CDS Direct

	Permanently Employed Staff £000	Other £000	2006 £000	Permanently Employed Staff £000	Other £000	2005 £000
Aggregate payroll costs were as follows:						
Salaries and wages	2,713	112	2,825	2,400	113	2,513
Social security costs	238	2	240	206	-	206
	2,951	114	3,065	2,606	113	2,719

Legal Services Commission

Notes to the financial statements (continued)

For the year ended 31 March 2006

Note 3 - Employment costs (continued)

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

	Permanently Employed Staff	Other	2006	Permanently Employed Staff	Other	2005
PDS	81	4	85	80	2	82
CDS Direct	1	-	1	-	-	-
	82	4	86	80	2	82

Community Legal Service Direct and Other Projects

	Permanently Employed Staff £000	Other £000	2006 £000	Permanently Employed Staff £000	Other £000	2005 £000
Aggregate payroll costs were as follows:						
Salaries and wages	818	33	851	598	17	615
Social security costs	76	-	76	45	-	45
	894	33	927	643	17	660

2005 figures now include payroll costs for Other Projects.

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

	Permanently Employed Staff	Other	2006	Permanently Employed Staff	Other	2005
Community Legal Service Direct	29	2	31	28	1	29
Other Projects	1	-	1	-	-	-
	30	2	32	28	1	29

Legal Services Commission

Notes to the financial statements (continued)

For the year ended 31 March 2006

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 set by the Trustees having taken advice from the Scheme Actuary (Charles Young of Hymans Robertson LLP) on the basis of biennial valuations. The most recent formal valuations were as at 31 March 2004 and these results are restated in the valuation assumptions for the FRS17 valuation for current year disclosure. The next formal valuations were scheduled for 31 March 2006 and will be available later in the year.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the rate set by the Government Actuary's Department currently fixed at 2.8% p.a. in excess of expected future price inflation.

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

A full actuarial valuation of the Scheme was carried out at 31 March 2004 by qualified independent actuaries Hymans Robertson LLP.

The Commission has contributed 26.1% of pensionable salary since 1 April 2005 with additional employer contributions of £5.3m in 2006.

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

A full actuarial valuation of the Scheme was carried out at 31 March 2004 by qualified independent actuaries Hymans Robertson LLP.

The Scheme is closed to new entrants and there are no active members. The Commission has contributed £183,500 in the period 1 April 2005 to 31 March 2006 (2005: £183,500).

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

	No. 4 Scheme 2006	No. 3 Scheme 2006	No. 4 Scheme 2005	No. 3 Scheme 2005
Discount rate	5.8% p.a.	5.8% p.a.	5.8% p.a.	5.8% 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.

Legal Services Commission

Notes to the financial statements (continued)

For the year ended 31 March 2006

Note 4 - Pension costs (continued)

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 2006	Value at 31 March 2006 £000	Expected long-term rate of return at 31 March 2005	Value at 31 March 2005 £000
No. 4 Pension Scheme				
Market value of assets				
Equities	7.5%	81,761	8.0%	59,554
Gilts and cash	4.2%	61,775	4.7%	47,854
Insured pensioners	5.8%	11,818	5.8%	11,300
Total market value of assets		155,354		118,708
Actuarial value of liabilities		(165,687)		(145,049)
Deficit in the Scheme		(10,333)		(26,341)
Related deferred tax liability		n/a		n/a
Net pension liability		(10,333)		(26,341)

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 2006	Value at 31 March 2006 £000	Expected long-term rate of return at 31 March 2005	Value at 31 March 2005 £000
No. 3 Pension Scheme				
Market value of assets				
Equities	7.5%	1,436	8.0%	1,231
Gilts and cash	4.2%	1,665	4.7%	1,452
Insured pensioners	5.8%	1,048	5.8%	1,041
Total market value of assets		4,149		3,724
Actuarial value of liabilities		(4,255)		(3,997)
Deficit in the Scheme		(106)		(273)
Related deferred tax liability		n/a		n/a
Net pension liability		(106)		(273)

Legal Services Commission

Notes to the financial statements (continued)

For the year ended 31 March 2006

Note 4 - Pension costs (continued)

Pension scheme costs charged to operating costs include:

	No. 4 Scheme 2006 £000	No. 3 Scheme 2006 £000	No. 4 Scheme 2005 £000	No. 3 Scheme 2005 £000
Current service cost	4,784	-	2,910	-
Past service charge	330	-	497	-
Total operating charge	5,114	-	3,407	-

Pension scheme interest costs

Expected return on Scheme assets	7,889	221	6,815	236
Interest on Scheme liabilities	(8,505)	(221)	(7,679)	(292)
Net return	(616)	-	(864)	(56)

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

Actual return less expected return on Scheme assets	16,930	408	1,606	(102)
Experience gains and losses arising on Scheme liabilities	-	-	2,754	891
Changes in assumptions underlying the present value of the Scheme liabilities	(8,960)	(425)	(20,831)	(306)
Actuarial gain/(loss) included in the statement of recognised gains and losses	7,970	(17)	(16,471)	483

Legal Services Commission

Notes to the financial statements (continued)

For the year ended 31 March 2006

Note 4 - Pension costs (continued)

	No. 4 Scheme 2006 £000	No. 3 Scheme 2006 £000	No. 4 Scheme 2005 £000	No. 3 Scheme 2005 £000
The movement in the deficit during the year arose as follows:				
Deficit in Scheme at beginning of year	(26,341)	(273)	(17,092)	(884)
Current service cost	(4,784)	-	(2,910)	-
Contributions	13,768	184	11,493	184
Past service cost	(330)	-	(497)	-
Other finance costs	(616)	-	(864)	(56)
Actuarial gain/(loss)	7,970	(17)	(16,471)	483
Deficit in Scheme at end of year	(10,333)	(106)	(26,341)	(273)

The No. 4 Pension Scheme history of experience gains and losses over the period 1 April 2002 to 31 March 2006 were as follows:

	No. 4 Scheme 2006 £000	No. 4 Scheme 2005 £000	No. 4 Scheme 2004 £000	No. 4 Scheme 2003 £000
Difference between the expected and actual return on Scheme assets	16,930	1,606	8,027	(14,924)
Percentage of Scheme assets	10.9%	1.4%	8.0%	(19.4)%
Experience gains and losses on Scheme liabilities	-	2,754	-	686
Percentage of the present value of Scheme liabilities	-	1.9%	-	(0.6)%
Total amount recognised in the statement of recognised gains and losses	7,970	(16,471)	(1,392)	(13,934)
Percentage of the present value of Scheme liabilities	4.8%	(11.4)%	(1.2)%	(13.9)%

Legal Services Commission

Notes to the financial statements (continued)

For the year ended 31 March 2006

Note 4 - Pension costs (continued)

The No. 3 Pension Scheme history of experience gains and losses over the period 1 April 2002 to 31 March 2006 were as follows:

	No. 3 Scheme 2006 £000	No. 3 Scheme 2005 £000	No. 3 Scheme 2004 £000	No. 3 Scheme 2003 £000
Difference between the expected and actual return on Scheme assets	408	(102)	313	(114)
Percentage of Scheme assets	9.8%	(2.7)%	8.2%	(4.0)%
Experience gains and losses on Scheme liabilities	-	891	-	(233)
Percentage of the present value of Scheme liabilities	-	22.3%	-	(5.0)%
Total amount recognised in the statement of recognised gains and losses	(17)	483	(82)	(342)
Percentage of the present value of Scheme liabilities	(0.4)%	12.1%	(1.7)%	(8.0)%

There were no early retirements (2005: 4 persons) on ill-health grounds; there were no additional accrued pension liabilities in the year (2005: £24,386).

Note 5 - Reconciliation of fixed asset additions to capital expenditure

	2006 £000	2005 £000
Fixed asset additions	2,494	5,423
Creditors and accruals	-	(480)
Payments to acquire tangible fixed assets	2,494	4,943

Legal Services Commission

Notes to the financial statements (continued)

For the year ended 31 March 2006

Note 6 - Tangible fixed assets

	Fixtures and fittings £000	Furniture and equipment £000	Computer equipment £000	Total £000
Cost at 1 April 2005	4,458	1,833	7,712	14,003
Additions	1,511	747	236	2,494
Disposals	(55)	(248)	(2,715)	(3,018)
Cost at 31 March 2006	5,914	2,332	5,233	13,479
Depreciation at 1 April 2005	859	591	4,833	6,283
Charged in year	1,001	440	943	2,384
Disposals	(55)	(248)	(2,697)	(3,000)
Depreciation at 31 March 2006	1,805	783	3,079	5,667
Net book value at 31 March 2006	4,109	1,549	2,154	7,812
Net book value at 31 March 2005	3,599	1,242	2,879	7,720

Legal Services Commission

Notes to the financial statements (continued)

For the year ended 31 March 2006

Note 7 - Other operating charges

	2006 £000	2005 £000
Rent, rates and insurance	6,795	6,275
Maintenance, heating, lighting and dilapidation charge	1,567	1,731
Office supplies, printing and stationery	1,074	1,441
Postage and telephone	2,679	2,877
Audit fee	125	113
Office machinery expenditure and maintenance	1,582	1,333
Travelling, subsistence and committee members' attendance fees	2,940	3,825
Contribution recovery costs	78	61
File assessment and peer review	1,527	667
Research and development	307	1,108
Computer contractors	873	1,200
Managed facility	1,488	1,375
Staff recruitment and retention expenses	1,825	2,456
Payroll contract	125	107
Conferences and courses	1,499	1,189
Land Registry charges	291	287
Legal and professional charges	2,606	3,033
Publicity	242	251
Security service and contracts	517	576
Ex gratia payments and other similar charges	258	225
Crime Higher service charge	7,520	6,340
Finance lease charges	-	5
(Profit)/Loss on disposal of fixed assets	(16)	161
	35,902	36,636

The Crime Higher service charge is incurred under a Service Level Agreement. The Legal Services Commission compensates Her Majesty's Courts Service for administrative costs incurred in providing legal aid services in the Higher Criminal Courts, and is in turn funded through grant-in-aid by the Department for Constitutional Affairs.

Some 2005 costs within other operating charges have been reclassified to be consistent with the current year.

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

Legal Services Commission

Notes to the financial statements (continued)

For the year ended 31 March 2006

Note 8 - Operating surplus

	2006 £000	2005 £000
Operating surplus is stated after charging the following:		
Operating leases	5,655	5,248
Auditor remuneration	125	113

Auditor remuneration is for statutory audit work only.

Note 9 - Interest receivable and similar income

	2006 £000	2005 £000
Interest receivable and similar income	1,253	1,164

Note 10 - Interest payable and similar charges

	2006 £000	2005 £000
Interest payable and similar charges	1,651	1,612

Note 11 - Other finance costs

	2006 £000	2005 £000
Discount on provisions	200	43
Pension Scheme No. 4 (note 4)	616	864
Pension Scheme No. 3 (note 4)	-	56
	816	963

Legal Services Commission

Notes to the financial statements (continued)

For the year ended 31 March 2006

Note 12 - Gross cash flows

	2006 £000	2005 £000
Reconciliation of operating surplus to net operating cash flows		
Operating surplus	9,828	6,324
Depreciation charges and (profit)/loss on disposal	2,368	1,938
Government grant reserve movement	92	3,807
(Increase) in debtors	(7,332)	(1,953)
Increase/(decrease) in creditors	8,199	(159)
Increase in provisions	389	1,988
Other finance charges and pension payments	(8,838)	(8,270)
Net cash inflow from operating activities	4,706	3,675
Returns on investment and servicing of finance		
Interest received	1,211	1,136
Interest paid	(1,651)	(1,667)
	(440)	(531)
Capital expenditure		
Payments to acquire tangible fixed assets (note 5)	(2,494)	(4,943)
Receipts from sales of tangible fixed assets	34	-
	(2,460)	(4,943)

Legal Services Commission

Notes to the financial statements (continued)

For the year ended 31 March 2006

Note 13 - Analysis of changes in net funds

	At 1 April 2005 £000	Cash flows £000	At 31 March 2006 £000
Cash at bank and in hand	833	1,806	2,639

Note 14 - Debtors

	2006 £000	2005 £000
Amounts falling due within one year		
Other debtors	206	781
Amounts due from the DCA on the Crime Higher Service Level Agreement	7,520	-
Amounts due from CLS Fund	1,273	900
Prepayments and accrued income	3,638	3,582
	12,637	5,263

Note 15 - Creditors

	2006 £000	2005 £000
Amounts falling due within one year		
Other creditors	42	5
Amounts due to HMCS on the Crime Higher Service Level Agreement	7,520	-
Amounts due to CDS	259	-
Other taxation and social security costs	52	27
Accruals and deferred income	3,712	3,354
	11,585	3,386

Legal Services Commission

Notes to the financial statements (continued)

For the year ended 31 March 2006

Note 16 - Reserves

	Income and expenditure reserve £000	Government grant reserve £000	Total reserves £000
At 1 April 2005	(29,821)	7,720	(22,101)
Retained surplus for the financial year	8,614	-	8,614
Grant deferred for additions	-	2,494	2,494
Released for depreciation	-	(2,384)	(2,384)
Released for disposals of fixed assets	-	(18)	(18)
Actuarial gain recognised	7,953	-	7,953
At 31 March 2006	(13,254)	7,812	(5,442)

Note 17 - Going concern

The balance sheet at 31 March 2006 shows an excess of liabilities over assets of £5.4m.

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

Note 18 - Capital commitments

There are commitments for capital expenditure of £23,209 (2005: £278,846) for which no provision has been made in these accounts.

Note 19 - Commitments under operating leases

	2006 £000	2005 £000
Annual commitments under operating leases expiring:		
Within one year - land and buildings	1,717	375
Within one year - other	77	268
Between two to five years - land and buildings	549	2,045
Between two to five years - other	62	-
Over five years - land and buildings	2,952	2,722
	5,357	5,410

Legal Services Commission

Notes to the financial statements (continued)

For the year ended 31 March 2006

Note 20 - Provision for liabilities and charges

	Total £000
At 1 April 2005	5,917
Additions and increases to provision	2,281
Amounts used in the period	(950)
Unused amounts reversed in the period	(942)
Finance charges	200
At 31 March 2006	6,506

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

Provision is made for estimated dilapidation costs on leasehold buildings. The provision has been estimated with reference to the condition and location of the buildings and discounted at 2.2% (2005: 3.5%). The costs are expected to be incurred between 2006 and 2019 as the leases expire. A dilapidation provision on vacated buildings is maintained until dilapidation negotiations have been finalised.

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

The taxation provision relates to a liability on committee member fees, for the period from 2000 to 2006. The Commission is still in negotiation with HM Revenue and Customs on the total liability.

Disclosure of the detail on the taxation provision is expected to prejudice seriously the position of the Legal Services Commission in its negotiations with HM Revenue and Customs on the total liability, and as such the Legal Services Commission has elected not to disclose the details of the provision, and instead have included all classes of the provision under one total.

Note 21 - Contingent liabilities

At 31 March 2006 the Commission has made provision for a liability for additional taxation on committee member fees. Whilst the outcome of the negotiation with HM Revenue and Customs is uncertain, there is potential additional liability other than that provided for.

Note 22 - 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 2005/06, the Legal Services Commission entered into no other material transactions with related parties.

Legal Services Commission

Notes to the financial statements (continued)

For the year ended 31 March 2006

Note 23 - Financial instruments

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

Liquidity risk

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

Interest rate risk

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

Foreign currency risk

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

Financial assets

	Fixed rate financial assets £000	Floating rate financial assets £000	Financial assets on which no interest is received £000	Total £000	Weighted average interest rate %	Weighted average period for which interest rate is fixed Years
Currency						
Sterling	-	2,639	-	2,639	4.1	-
At 31 March 2006	-	2,639	-	2,639	4.1	-
Sterling	-	833	-	833	4.1	-
At 31 March 2005	-	833	-	833	4.1	-

Legal Services Commission

Notes to the financial statements (continued)

For the year ended 31 March 2006

Note 23 - Financial instruments (continued)

Financial liabilities

	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000	Total £000	Weighted average interest rate %	Weighted average period for which interest rate is fixed Years
Currency						
Sterling	1,991	-	-	1,991	2.2	-
At 31 March 2006	1,991	-	-	1,991	2.2	-
Sterling	3,353	-	-	3,353	3.5	-
At 31 March 2005	3,353	-	-	3,353	3.5	-

Fair values

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

Note 24 - Accountability notes

Losses

There were no incidences of cash reported stolen in the year (2005: 2 incidences amounting to £296).

There were no items of equipment reported stolen in the year (2005: 10 items valued at a cost of £1,100).

There was an incident of fraudulent payments to third parties made in the year of £27,320 (2005: None). The incident involved a member of staff who colluded with third parties. The individual was dismissed following an investigation and was subject to criminal proceedings. The matter was reported in full to the LSC's Audit Committee and procedures were changed following this incident to improve control.

Special payments

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

There were 101 (2005: 240) ex gratia payments totalling £257,537 (2005: £225,400).

Note 25 - Post balance sheet events

On 26 May 2006 it was announced that Clare Dodgson, the Chief Executive and Accounting Officer, was leaving the Legal Services Commission. Brian Harvey OBE has been Acting Chief Executive and Acting Accounting Officer in her absence and her departure is not expected to cause any operational disruption to the Legal Services Commission.

Accounts direction given by the Lord Chancellor, with the approval of the Treasury, in accordance with Paragraph 16(2) of Schedule 1 to the Access to Justice Act 1999

For the financial year ended 31 March 2006 and subsequent financial periods, the Legal Services Commission shall prepare statements of accounts as follows:

- annual financial statements for the Community Legal Service Fund and the Criminal Defence Service, as established respectively under Paragraphs 5 and 12 of the Access to Justice Act; and
- annual financial statements for the Legal Services Commission's grant-in-aid funded operations.

Each of these sets of financial statements shall comply with the accounting principles and disclosure requirements of:

- Government *Financial Reporting Manual* (FReM);
- other guidance which the Treasury may issue from time to time.

These accounts shall be prepared so as to:

- give a true and fair view of the state of affairs of the Commission as at 31 March 2006 and each subsequent financial year and of the net operating costs, recognised gains or losses and cash flows for the financial year then ended; and
- provide disclosure of any material expenditure or income that has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

Compliance with the requirements of the FReM will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances, compliance with the requirements of the FReM is inconsistent with the requirement to give a true and fair view, the requirements of the FReM should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment which should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the FReM. Any material departure from the FReM should be discussed with HM Treasury.

This direction supersedes that dated 6 June 2001.

Signed by authority of the Lord Chancellor

Barbara Moorhouse
Director General, Finance
Department for Constitutional Affairs
1 June 2006

The Legal Services Commission
85 Gray's Inn Road
London, WC1X 8TX

www.legalservices.gov.uk
Tel: 020 7759 0000

Published by TSO (The Stationery Office) and available from:

Online

www.tso.co.uk/bookshop

Mail, Telephone, Fax & E-mail

TSO
PO Box 29, Norwich NR3 1GN
Telephone orders / General enquiries 0870 600 5522
Fax orders 0870 600 5533
Order through the Parliamentary Hotline Lo-Call 0845 7 023474
E-mail book.orders@tso.co.uk
Textphone 0870 240 3701

TSO Shops

123 Kingsway, London WC2B 6PQ
020 7242 6393 Fax 020 7242 6394
68-69 Bull Street, Birmingham B4 6AD
0121 236 9696 Fax 0121 236 9699
9-21 Princess Street, Manchester M60 8AS
0161 834 7201 Fax 0161 833 0634
16 Arthur Street, Belfast BT1 4GD
028 9023 8451 Fax 028 9023 5401
18-19 High Street, Cardiff CF10 1PT
029 2039 5548 Fax 029 2038 4347
71 Lothian Road, Edinburgh EH3 9AZ
0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop

12 Bridge Street, Parliament Square
London SW1A 2JX
Telephone orders / General enquiries 020 7219 3890
Fax orders 020 7219 3866

TSO Accredited Agents

(See Yellow Pages)

and through good booksellers

This document has been printed on paper that is produced using 75% de-inked post-consumer waste and 25% mill broke (offcuts and rejected material) and virgin fibres. All recycled papers used in the production of these products are a combination of TCF (Totally Chlorine Free) and ECF (Elemental Chlorine Free).

