



HM Courts &  
Tribunals Service

**HM Courts & Tribunals Service**

# **Annual Report and Accounts**

**2012-13**





HM Courts &  
Tribunals Service

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## Annual Report and Accounts 2012-13

HM Courts & Tribunals Service is an executive agency of the Ministry of Justice.

Annual Report presented to Parliament pursuant to Section 1(4) of the Courts Act 2003  
and Section 39(3) of the Tribunals, Courts and Enforcement Act 2007

Accounts of HM Courts & Tribunals Service presented to the House of Commons  
pursuant to Section 7 of the Government Resources and Accounts Act 2000

Accounts of HM Courts & Tribunals Service presented to the House of Lords by Command of Her Majesty

Accounts of the Criminal Injuries Compensation Appeals Panel presented to Parliament  
pursuant to Section 6 of the Criminal Injuries Compensation Act 1995.

Ordered by the House of Commons to be printed on 25 June 2013.

Laid before Scottish Parliament by the Scottish Ministers on 25 June 2013.

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You can download this publication from our website at [www.justice.gov.uk/publications/corporate-reports/hmcts](http://www.justice.gov.uk/publications/corporate-reports/hmcts)

ISBN: 9780102984415

Printed in the UK by The Stationery Office Limited on behalf of the Controller of Her Majesty's Stationery Office

ID: 2565212 06/13

Printed on paper containing 75% recycled fibre content minimum

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# 1 Introduction

We are pleased to introduce the 2012-2013 Annual Report for HM Courts & Tribunals Service.

This is the second successful year for HM Courts & Tribunals Service since it formed as an agency within the Ministry of Justice. Our courts and tribunals are at the very heart of our justice system, providing an invaluable service on which the public relies for the delivery of justice and the maintenance of the rule of law.

Over the past year, despite the difficult financial climate within which HM Courts & Tribunals Service has had to operate, there has been a tremendous commitment towards improving the services we provide by identifying and implementing more efficient ways of working, reducing costs and removing underused capacity from our estate. We owe a deep debt of gratitude to all HM Courts & Tribunals Service staff who have continued to provide an excellent service.



The Rt. Hon.  
Chris Grayling MP  
Lord Chancellor and  
Secretary of State for Justice



The Rt. Hon.  
The Lord Judge  
Lord Chief Justice of  
England and Wales



The Rt Hon  
Sir Jeremy Sullivan  
Senior President of  
Tribunals

## 2 Foreword from the Chief Executive

I am very proud to present the second Annual Report for HM Courts & Tribunals Service.

Performance this year has improved or been maintained across all jurisdictions, while delivering savings to our budgets. In the Crown Court the proportion of effective trials compared to last year increased to just below 50%, and whilst the Social Security and Child Support (SSCS) Tribunal has received record numbers of appeals this year, with over a third more than those received in 2011-12, waiting times at SSCS Tribunal centres have reduced from 23 weeks to 18 weeks.

Behind these excellent figures are the significant changes we have made in our second year to improve the service that we deliver to our users. Our culture of continuous improvement, which we have deeply embedded in the way we work, has allowed us to streamline processes and identify new and better ways of working. The standard operating procedure we have put in place for resulting (communicating the outcome of a criminal trial) has significantly reduced waste, and has made considerable improvements to the time it takes. Where these standard procedures do not work as expected, we have clear processes for finding solutions and implementing them, where necessary across the service. This relentless drive to improve is enabling us to do better for our users even where fewer resources are available.

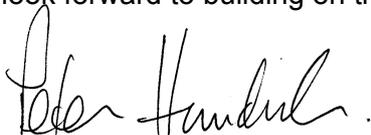
We are making these improvements within the context of an estate that is widely distributed, and in which many of our buildings are old. A large proportion of the court and tribunal venues that we have inherited were built many decades, even centuries ago, and some do not achieve the standards we would set for those buildings now. For example, some hearing rooms are not accessible to wheelchair users, and cannot be made so. We must look to improve this where we can to allow access to justice for all citizens – but where more significant change is required, we should not be dissuaded from seeking out far-reaching improvements to the estate.

We must also recognise the impact of reducing workload in some jurisdictions on the cost of operating our hearing centres, given the extent of automation and centralisation possible in the current estate. In the future we need to deal with these current limitations if the cost is to remain proportional to the services we deliver. Our plans to modernise our IT and estate, which we expect to bring forward in the course of next year, will allow us to provide the public with a modern, efficient courts and tribunals service.

It is critical to our success that we work closely, and in a spirit of cooperation and shared goals, with our judicial partners. This last year has seen partnership working taking place at all levels of the organisation. While the judiciary is strongly represented at Board level, individual judges are working every day with staff locally, regionally and nationally across all our jurisdictions to provide a collaborative effort in improving the agency and the wider justice system. Specifically, the introduction of the Single Family Court and the development of plans to introduce digital working in the Crown Court are good examples of where working closely with our partners continues to achieve significant improvement for the public.

The success of the past year is attributable to the continued hard work and commitment to improvement shown by our strongest asset – our staff. They continue to deliver extraordinary results and we need to maintain our determination to thoroughly modernise our service to ensure they have the tools they need to deliver still better performance.

I look forward to building on the success of the past year as we move into the next.



**Peter Handcock CBE**  
Chief Executive

## 3 HM Courts & Tribunals Service Governance

### The Board

The Board is responsible for overseeing the leadership and direction of HM Courts & Tribunals Service in delivering the aims and objectives set by the Lord Chancellor, the Lord Chief Justice of England and Wales and the Senior President of Tribunals. Its detailed role is defined in our Framework Document.<sup>1</sup>

The membership of the Board comprised an independent Non-Executive Chairman, two further Non-Executive members; three judicial members; the Chief Executive and three Executive Directors.

The Board met regularly under the chairmanship of Robert Ayling and details of its membership as at 31 March 2013 can be found on page 39 of this report.

### Chief Executive

The Chief Executive is responsible for day to day operations and is the principal advisor to the Board and, through it, to the Lord Chief Justice, the Senior President of Tribunals and the Lord Chancellor. The Chief Executive met regularly with the Lord Chief Justice, the Senior Presiding Judge for England and Wales and the Senior President of Tribunals on issues such as budgets, the estate and senior appointments. The Chief Executive also met with the team of Executive Directors as required to focus on key performance measures in all jurisdictions, to identify and find practical solutions to critical concerns and to discuss key operational issues.

### Ministry of Justice

The Ministry of Justice (MoJ) itself brings together areas responsible for the administration of the courts, tribunals, legal aid, sentencing policy, prisons, the management of offenders and also matters concerning law and rights.

It is one of the largest government departments, employing around 76,000 people (including those in the Probation Service), with a budget of approximately £9 billion. Each year millions of people use its services across the UK - including at over 500 courts and tribunal venues. The ministry is also responsible for 133 prisons in England and Wales.

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<sup>1</sup> To the extent that the functions of the Senior President of Tribunals and of the former Tribunals Service (as now inherited by HM Courts & Tribunals Service) extended beyond England and Wales, nothing in HM Courts & Tribunals Service Framework Document, which sets out the agreement reached between the Lord Chancellor, the Lord Chief Justice and the Senior President of Tribunals for the operation of the agency, is to be taken as affecting the continuation of the previous arrangements in relation to other parts of the UK, or in particular their relations with and responsibilities to respectively the Lord President of the Court of Session or the Lord Chief Justice of Northern Ireland, or any other authority in those other parts.

## 4 Business Overview

### About HM Courts & Tribunals Service

HM Courts & Tribunals Service was created on 1 April 2011 as an executive agency of the MoJ. It brought together HM Courts Service and the Tribunals Service into one integrated agency providing support for the administration of justice in courts and tribunals.

The agency operates as a partnership between the Lord Chancellor, the Lord Chief Justice and the Senior President of Tribunals as set out in our Framework Document.

HM Courts & Tribunals Service is responsible for the administration of the criminal, civil and family courts and tribunals in England and Wales and non-devolved tribunals in Scotland and Northern Ireland. It supports a fair, efficient and effective justice system delivered by an independent judiciary.

#### **The Aim of HM Courts & Tribunals Service**

To run an efficient and effective courts and tribunals system, which enables the rule of law to be upheld, and provides access to justice for all.

Our objectives and our business priorities for the four year period covered by the Government's 2010 Spending Review were published in the HM Courts & Tribunals Service Business Plan 2011-15 and are as follows:

### Objectives

- Provide the supporting administration for a fair and efficient courts and tribunal system.
- Support an independent judiciary in the administration of justice.
- Drive continuous improvement of performance and efficiency across all aspects of the administration of the courts and tribunals.
- Collaborate effectively with other justice organisations and agencies, including the legal professions, to improve access to justice.
- Work with government departments and agencies to improve the quality of their decision making in order to reduce the number of cases coming before courts and tribunals.

### Business Priorities

- Implement the HM Courts & Tribunals Service operating strategy.
- Complete the implementation of HM Courts & Tribunals Service effectively.
- Develop a sustainable business model for civil, family and administrative justice which balances spending and income.
- Increase efficiency and reduce cost across the Criminal Justice System (CJS) by driving and implementing process change, matching resources to demand, reducing duplication and waste.
- Delivering a cheaper, faster and more proportionate enforcement system that achieves a significantly higher degree of compliance with court orders.

## Workload and performance summary

Workload Forecast	Input Indicators <sup>2</sup> <sup>3</sup>	Impact Indicators
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### Crown Court

Forecast receipts 2012-13 – all cases: 149,700 Receipts during 2012-13 - all cases: 129,869 Receipts during 2011-12 - all cases: 145,272	Average staff and judicial cost per sitting day in the Crown Court:  2012-13 Judicial cost £987 staff cost £616	The average number of weeks it takes to commence <sup>4</sup> trial cases from receipt in the Crown Court – 2012-13: 14.3 weeks 2011-12: 15.8 weeks
Forecast receipts 2012-13 – trial cases: 95,600 Receipts during 2012-13 – trial cases: 79,567 Receipts during 2011-12– trial cases: 89,669	2011-12 Judicial cost £992 Staff cost £665	

### Magistrates' Court

Forecast completed criminal proceedings (all) 2012-13: 1,633,300 Completed criminal proceedings during 2012-13: 1,634,745 Completed criminal proceedings during 2011-12: 1,717,464	Average staff and judicial cost per sitting day in magistrates' courts:  2012-13 Judicial cost £129 Staff cost £1,071	The average number of weeks it takes to complete <sup>5</sup> all cases from first listing – 2012-13: 3.2 weeks 2011-12: 3.3 weeks
Forecast indictable completed proceedings 2012-13: 459,600 Indictable proceedings completed in 2012-13: 347,054 Indictable proceedings completed in 2011-12: 381,612	2011-12 Judicial cost £110 Staff cost £1,094	The average number of working days it takes to result court registers – 2012-13: 1.5 days 2011-12: 1.9 days
Forecast summary completed proceedings 2012-13: 1,173,700 Summary proceedings completed in 2012-13: 1,105,997 Summary proceedings completed in 2011-12: 1,120,739		The payment rate for financial penalties – 2012-13: 107% 2011-12: 106%

<sup>2</sup> Staff and judicial expenditure is based on jurisdictional analysis. Expenditure includes apportioned costs from regional and central teams. Judicial costs met centrally through the consolidated fund are apportioned based on sitting days. Costs are divided by the actual days sat in each jurisdiction to derive a cost per sitting day.

<sup>3</sup> The results for different jurisdictions are not comparable. Many cases are completed other than by a hearing, particularly in the civil courts. The costs associated with these cases remain in the overall staff and judicial cost shown. As the proportion of non-hearing related work will vary the costs shown are not comparable.

<sup>4</sup> A case commences at the start of the first main Crown Court hearing. A main hearing is one where the defendant enters a plea to all charges or the jury is sworn in.

<sup>5</sup> A case is completed in the magistrates' courts either when it is disposed of or it is transferred to the Crown Court.

Workload Forecast	Input Indicators <sup>2</sup> <sub>3</sub>	Impact Indicators
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### Tribunals

<p>All tribunals: Forecast receipts 2012-13: 881,100 Cases received in 2012-13: 874,164 Cases received in 2011-12: 749,400</p>	<p>Average staff and judicial cost per sitting day in tribunals:</p> <p>2012-13 Judicial cost £722 Staff cost £338</p> <p>2011-12 Judicial cost £790 Staff cost £385</p>	
<p>Social Security and Child Support: Forecast receipts 2012-13: 483,400 Cases received in 2012-13: 507,131 Cases received in 2011-12: 370,797</p>	<p>Total cost of tribunals: 2012-13: £373.7 million</p>	<p>The number of weeks it takes to dispose of cases across the Social Security and Child Support Tribunal – 2012-13: 18 weeks 2011-12: 23 weeks</p>
<p>Employment: Forecast receipts 2012-13: 204,600 Cases received in 2012-13: 191,541 Cases received in 2011-12: 186,331</p>		<p>The number of weeks it takes to dispose of cases across the Employment Tribunal – 2012-13: 80 weeks 2011-12: not available</p>
<p>Immigration and Asylum: Forecast receipts 2012-13: 123,100 Cases received in 2012-13: 103,923 Cases received in 2011-12: 122,371</p>		<p>The number of weeks it takes to dispose of cases across the Immigration and Asylum Tribunal – 2012-13: 20 weeks 2011-12: 18 weeks</p>
<p>Mental Health: Forecast receipts 2012-13: 28,300 Cases received in 2012-13: 28,969 Cases received in 2011-12: 29,601</p>		<p>The number of weeks it takes to dispose of Section 2 cases across the Mental Health Tribunal – 2012-13: 1 week 2011-12: 1 week</p>
<p>Other: Forecast receipts 2012-13: 41,700 Cases received in 2012-13: 42,600 Cases received in 2011-12: 40,300</p>		

### Civil and Family Justice

<p><b>Civil courts –</b> All receipts: Forecast receipts 2012-13: 1,454,300 Cases received in 2012-13: 1,428,195 Cases received in 2011-12: 1,510,981</p>	<p>Average staff and judicial cost per sitting day in county courts:</p> <p>2012-13 Judicial cost £816 Staff cost £796</p> <p>2011-12 Judicial cost £765</p>	<p>Civil – The average number of weeks it takes to hear cases from when the claim was received at court –</p> <p><b>Small claims:</b> 2012-13: 37.8 weeks 2011-12: 39.0 weeks</p>
<p>Money Claims: Forecast receipts 2012-13: 1,091,100 Cases received in 2012-13: 1,065,719 Cases received in 2011-12: 1,133,942</p>		

Workload Forecast	Input Indicators <sup>2</sup> 3	Impact Indicators
Repossession: Forecast receipts 2012-13: 193,400 Cases received in 2012-13: 212,244 Cases received in 2011-12: 214,172	Staff cost £853	
Insolvency: Forecast receipts 2012-13: 58,900 Cases received in 2012-13: 47,113 Cases received in 2011-12: 59,518		
Other: Forecast receipts 2012-13: 110,900 Cases received in 2012-13: 113,851 Cases received in 2011-12: 117,555		
<b>Family courts –</b> All cases: Forecast receipts 2012-13: 189,200 Cases received in 2012-13: 277,904 Cases received in 2011-12: 277,677		Family <sup>6</sup> – The average number of weeks it takes to achieve a final outcome for the child in care and supervision cases –  2012-13: 47 weeks 2011-12: 55 weeks
Adoption: Forecast receipts 2012-13: 7,000 Cases received in 2012-13: 13,538 Cases received in 2011-12: 11,458		
Public Law Receipts: Forecast receipts 2012-13: 11,600 Cases received in 2012-13: 17,267 Cases received in 2011-12: 17,359		
Private law receipts: Forecast receipts 2012-13: 36,900 Cases received in 2012-13: 56,328 Cases received in 2011-12: 52,860		
Family Law Act receipts: Forecast receipts 2012-13: 15,800 Cases received in 2012-13: 21,503 Cases received in 2011-12: 21,217		

<sup>6</sup> These measures, along with measures from the Legal Services Commission and the Children and Family Court Advisory and Support Service (CAFCASS), form part of a cross system measurement framework.

Workload Forecast	Input Indicators <sup>2</sup> <sub>3</sub>	Impact Indicators
Divorce receipts: Forecast receipts 2012-13: 117,900 Cases received in 2012-13: 122,348 Cases received in 2011-12: 128,923		

### Corporate and other financial indicators

<ul style="list-style-type: none"> <li>The number of complaints recorded by HM Courts &amp; Tribunals Service: 13,451<sup>7</sup></li> </ul>
<ul style="list-style-type: none"> <li>The percentage of complaints concluded by the first tier in HM Courts &amp; Tribunals Service: 95%</li> </ul>
<ul style="list-style-type: none"> <li>The average number of days it takes to finalise the answering of complaints: 11.1 working days<sup>8</sup></li> </ul>
<ul style="list-style-type: none"> <li>All spending and contracts over £25,000: Details of all spending and contracts over £25,000 for HM Courts &amp; Tribunals Service and across the MoJ are published monthly at: <a href="http://www.justice.gov.uk/information-access-rights/transparency-data/spend-over-25000">http://www.justice.gov.uk/information-access-rights/transparency-data/spend-over-25000</a></li> </ul>

<sup>7</sup> The number of complaints recorded is the total of first contact, review and appeal stage complaints received.

<sup>8</sup> Average days does not include all appeal stage complaints.

## 5 Performance Review

### Progress against Business Priorities

Over the past year there have been many significant changes which have improved the services delivered by HM Courts & Tribunals Service. To increase focus on delivery and on customer needs HM Courts & Tribunals Service has reformed its senior management structure. HM Courts & Tribunals Service has streamlined processes by identifying and implementing better ways of working through use of Standard Operating Procedures and adopting principles of continuous improvement across our business. Continuous improvement means that we encourage our people to challenge the way we do things in a constructive way to deliver with greater efficiency and effectiveness. We have worked hard to make good progress against our business priorities while ensuring that our day to day business remains efficient and effective.

The 2010 Spending Review (SR10) set a staff reduction target for HM Courts & Tribunals Service of 2,980. This equates to circa £107million saving in base line salaries per financial year from 2013-14. Additional bids (circa £27 million) for funding for voluntary early departure schemes were successful, and as a result of the savings made through the headquarters and regional operational restructure, the Court Estate Reform Programme and a number of other restructure programmes the staff reduction target has been achieved early.

The implementation of headquarters and regional operational structures has now been completed. This has resulted in over 3,500 staff being appointed into roles, over 400 staff agreeing to Voluntary Exit Departure (VED) packages during 2012-13 and over 400 staff voluntarily exiting in 2012-13 through the removal of management posts and the re-direction of resources to the frontline. The restructure has been completed to time and budget without the need for compulsory redundancies. The new organisational structure is working well and performance has been maintained throughout this period of significant change. The implementation of a new legal structure is now underway, ensuring that the legal and administrative management structures are integrated; this has already achieved a saving in excess of 100 legal manager posts.

Other key achievements during 2012-13 include the Senior Presiding Judge's Early Guilty Plea scheme. Over this reporting year HM Courts & Tribunals Service has supported the judiciary to implement Early Guilty Plea schemes in all the Crown Courts in England and Wales.

In December 2010 ministers announced the decision to close 142 courts; 93 magistrates' courts and 49 county courts. The ongoing Court Estate Reform Programme (CERP) closes courts that are underutilised and have poor facilities, reducing future routine maintenance and running costs. To date (June 2013) 136 courts have closed, 88 magistrates' courts and 48 county courts. From the 136 courts that have closed, there have been no compulsory redundancies. There has been a reduction of 209 posts out of the 215 planned for the overall programme. Over 95% of the programme is now complete with the remaining courts scheduled to close by September 2014. The total cumulative gross benefits are expected to be £93.6 million over the spending review period; consisting of resource savings from court closures of £60.6 million and gross capital proceeds of £33 million from the sale of buildings. A total of 35 buildings have been sold so far attracting disposal receipts of approximately £14.5 million.

During the year we continued to embed the Workforce Change process, which decides the structure and staffing numbers in regions and headquarters, assesses which roles are critical, and determines how the skills, knowledge and experience requirements of each role will be supplied. To support this process we focused on ensuring a better understanding of business critical roles and planning, to ensure that we have the right person, with the right skills, in the right place. The Workforce Change process has ensured that business critical roles have been identified at Senior Civil Service (SCS) and Band A (i.e. senior manager) level and succession

plans put in place for them, with talent in the SCS and Bands A and B being identified and development plans prepared. Workforce Change Groups have prepared resourcing plans to meet anticipated workloads and continue to refine this process.

Given the restructures and overall reductions in numbers it is imperative that we are identifying and preparing our next generation of leaders. Succession planning and talent management are becoming embedded in the organisation. An example of this is the Future Leaders Scheme which has recently seen successful applicants putting forward and now implementing proposals for achieving savings in the business.

Against a background of major change, financial constraint and reduced resources, we are proud of our achievements in 2012-13. However, we are fully aware of the continuing challenges ahead and will build on our accomplishments to deliver a service which meets the future needs of both our users and the judiciary. Our achievements were in the context of a difficult industrial relations climate owing to our efficiency plans and Civil Service reform proposals, but we managed to limit the impact of any action, ensuring that performance was maintained.

## **Implement the HM Courts & Tribunals Service future operating strategy**

Now that the HM Courts & Tribunals Service implementation process is complete we are focused on developing our long-term vision and delivery strategy. To drive further efficiency and ensure our ability to operate within tight financial constraints we continue to develop plans for reform of our infrastructure and operating model.

As part of our strategy to improve courts across the HM Courts & Tribunals Service estate we are making changes to our existing estate by integrating and modernising existing sites and closing those with inadequate facilities.

Basingstoke Law Courts reopened in October 2012 following a year long project to create two new courtrooms and two district judge county courtrooms and refurbish the existing magistrates' court. The project, which integrated Basingstoke County and Magistrates' Court and allowed the closure of Andover Magistrates' Court, has led to improved facilities for court users and staff, increased utilisation and significant financial savings from the reduction of three sites to one.

Aberystwyth Justice Centre was opened by the Lord Chief Justice of England and Wales in November 2012 following extensive refurbishment of a former Welsh Assembly building in Y Lanfa Marina. Both the magistrates' courts at Aberaeron and Aberystwyth have been relocated into the building which will provide court services to the town of Aberystwyth and a large rural area covering most of Ceredigion, South Gwynedd and a small area of Powys.

New magistrates' courts at Chelmsford and Colchester became operational in April 2012. The new buildings offer improved functionality especially in regard to key areas of disability access and witness facilities. The new courts allowed for the closure of courts in Chelmsford, Colchester, Harwich and Epping. Chelmsford Magistrates' Court comprises one Crown Court and five magistrates' courtrooms with five further magistrates' courtrooms in Colchester.

A new Newport Magistrates' Court is currently under construction. The building will include four new courtrooms with improved facilities for staff, magistrates and court users. The construction phase is due for completion in summer 2013 with the opening scheduled for October 2013 following the internal fitting out required.

We continue to expand and successfully develop our business centre and contact centre services, particularly across the Civil Justice System. In its first year of life the County Court Money Claims Centre has issued 380,000 claims, 129,000 defences and 127,000 judgments with 95% of work now being completed within five working days. It also receives 6,500 calls a week with more than 97% now answered within one minute. The Centre is a new way of

working for HM Courts & Tribunals Service and whilst there were challenges at the start, performance has greatly improved. We continue to take on board customer feedback to further improve the service. The Centre is now providing a standardised national service in which customers can have confidence whilst saving the tax payer £2.8 million in its first full year of operation.

We have further improved the service offered by our national call centre (which now takes over 80,000 calls a month), implementing a new performance monitoring system to significantly drive down waiting times for customers and cross training staff to support customers across multiple service lines. The contact centre has also taken on all civil and family calls for Birmingham and Coventry County Courts and successfully proved that further calls could be centralised. New special tribunals work continues to be located within the business centre in Leicester and there are plans to move more tribunal fee work there in the coming year. A new business centre to deal with a change in rules for Social Security and Child Support (SSCS) was launched in April, building on the experience of the business centre in Salford.

Within tribunals the Welfare Reform Act introduces legislative changes which will see social security and child support appeals lodged directly with HM Courts & Tribunals Service rather than with the Department for Work and Pensions (DWP) by November 2013. These changes will support the government's welfare reform agenda and place an emphasis on DWP providing mandatory reconsideration of their decisions which are disputed before an appeal is brought to HM Courts & Tribunals Service. This change enables SSCS tribunal users to send their appeals directly to a national processing centre and supports the HM Courts & Tribunals Service business plan objective of maximising the use of back offices and contact centres. HM Courts & Tribunals Service will create two Direct Lodgement Centres to receive and register these appeals, reducing the burdens on regional tribunal centres to focus on progressing appeals to hearing.

We have now outsourced a considerable part of the printing of notices to tribunal parties in the SSCS Tribunal. This supports the HM Courts & Tribunals Service business plan 2011-15 objective to develop a sustainable business model for civil, family and administrative justice which balances spending and income. The scope of the initiative was to provide a bulk printing facility for the SSCS Tribunal, realise efficiency savings and reinvest saved operational capacity in processing the continued and unprecedented increases in appeal volumes. The bulk printing facility was implemented in November 2012 saving £273,000 in 2012-13, rising to over £1 million savings in 2013-14.

Also, bulk printing for CaseMan, the computer system in the civil courts, is well advanced and has resulted in a much leaner process within the courts, and reduced costs to the business by the use of bulk posting contracts.

Continuous improvement (CI) is an approach towards work HM Courts & Tribunals Service uses to improve the service provided to users and the processes which support service delivery. CI means that we challenge the way we do things in a constructive way to deliver with greater efficiency and effectiveness. There are many techniques that come under the umbrella of CI, and HM Courts & Tribunals Service has chosen an approach using 'Lean' tools – an approach which focuses on understanding our customers' needs and how best to deliver this value to them. Lean processes aim to always be right first time and be of high quality.

Using Lean tools, our CI strategy is built around four main strands aimed at embedding these good practices in our business:

**Building capability.** It has been important to build the understanding and capability of the organisation in its ability to apply CI techniques and develop a CI culture. A significant number of staff at all levels have received training: over 450 senior leaders have completed Lean leadership training; 383 staff have completed Lean Academy practitioner programme; and over 3100 staff have attended Lean awareness training. Going forward Learning Networks will be

used to ensure theoretical learning is replaced with experiential learning that ensures CI ways of working embed and consistently become the way we work.

One way in which we will know how effectively the training is being applied in the business will be through a Maturity Assessment. The development of an organisational Maturity Assessment marks a milestone as each business unit self-assesses its maturity against a consistent set of criteria. We continue to work on a reporting system which will provide evidence of how we are doing and provide an early indication of further training and development solutions.

**Process improvements.** We continue to develop and implement standards across core jurisdictions and work with National Directors to prioritise service transformation with delivery partners. This was brought about by the implementation of Standard Operating Procedures (SOPs) which document the high-level steps of a process. By documenting the high level steps we are able to streamline processes, reduce waste and provide a better service to the customer. For example, the SOP for 'Resulting' (e.g. entering outcome of a hearing onto the computer) has significantly reduced waste through standardisation, and has made significant improvements to the time it takes to result a case. Where other SOPs have not delivered the same level of improvements problem solving exercises will seek to ensure standard working streamlines processes, reduces waste, and provides a better service to our customer across all our work.

SOPs have been developed and rolled out across the largest jurisdictions and throughout 2013-14 we will continue to put standard timings into place. Further work is also required to ensure SOPs are delivering maximum benefits and are linked to key areas identified by Value Stream Maps (VSMs). Value Stream Mapping is a method of visually depicting the flow of work from the beginning to the end of a process. VSMs will demonstrate where there are opportunities to remove waste and deliver service transformation for the customer, as well as assist in establishing new customer focused measures around quality, cost and delivery from March 2014.

**Corporate capability.** Work has been taking place to establish a visual management framework which links the front line to senior management discussions through Team Information Boards (TIBs) and Hubs. TIBs and Hubs are a visual management tool to manage work and team resources, identify and resolve issues and identify opportunities for improvement. This is an extensive piece of work and the progress made to date has already started to help the organisation foster a culture which focuses on quality outcomes for the customer as the driving force behind how we measure our success. During the coming year CI will be built into improving the systems we use to run our main jurisdictions and ensuring that customer value is embedded in the design of new ways of working.

**Beacon courts.** Beacon offices have been set up to showcase service delivery excellence. The organisation has embraced the concept of stretching targets and established a set of criteria setting out what was expected of a Beacon court. By November 2012, 26 courts and offices had officially embarked on a journey to beacon status, with many more using the standard to define how they worked. At the end of this year, Beacon criteria was absorbed into a new organisational tool (the Maturity Assessment) which will provide a clearer and more consistent approach, and as we go forward service delivery excellence will be evidenced against this new tool, with the overall aim of achieving a sustaining culture of CI in the organisation.

## Building skills in HM Courts & Tribunals Service

We have completed the first phase of the review of business skills materials with over 340 pieces of suitable business skills learning converted to e-learning or computer based training. This learning has been launched within HM Courts & Tribunals Service and will be supported by the introduction of further products when the second phase of this review is completed by the end of the financial year. This work allows the learner more flexibility and control over the speed of, and access to, their learning and is less resource intensive for the business.

The Operational Delivery Profession level 2 Diploma (ODP) is an externally recognised qualification and represents the first step in professionalising and recognising the skills within operational delivery. These qualifications will build the capability, flexibility, and competence of operational staff. 28 members of HM Courts & Tribunals Service completed the ODP by May 2012 and a further 22 commenced the Diploma in July 2012 with the aim of completing it within 12-18 months. Places will also be offered to staff on a level 3 ODP Diploma at the beginning of 2013-14 year.

In order to support the capability of staff HM Courts & Tribunals Service currently has 84 people undertaking the newly launched Usher Apprenticeship which is supported and assessed by HM Courts & Tribunals Service Learning and Development. A further 92 staff are undertaking other Apprenticeships including the Courts, Tribunals and Prosecutions Apprenticeship which was launched in 2012.

96% of business skills training is now being undertaken locally by accredited Business Skills Trainers (BSTs) and Business Skills Coaches (BSCs). These regional staff have been trained and supported by the HM Courts & Tribunals Service Learning and Development Team who continue to provide ongoing governance and reaccreditation for this resource as well as continuously identifying and training additional staff as required. On average approximately 50 staff per month are being trained and accredited. 767 staff have been accredited as BSTs and BSCs since April 2012.

HM Courts & Tribunals Service staff have undertaken 25,683 Civil Service Learning face-to-face and eLearning courses to improve business, management and generic skills over the 2012-13 year. In particular 448 staff have undertaken leadership learning as part of the Civil Service Learning leadership development programme, and the HM Courts & Tribunals Service commitment to leadership development as a priority has been further supported by a Future Leaders Programme for nine HM Courts & Tribunals Service staff

During the 2012-13 year HM Courts & Tribunals Service Learning and Development has supported the continued development of a back office function through the training and development of all staff within business centres and the Direct Lodgement Project to ensure they are equipped for their roles.

## **Complete the implementation of HM Courts & Tribunals Service effectively**

In HM Courts & Tribunals Service Business Plan 2011-15 we committed to restructuring our organisation.

In March 2010, the MoJ announced the bringing together of Her Majesty's Courts Service and the Tribunals Service into a new single organisation. In July 2010, following the government's requests for departments to publish Structure Reform Plans, the MoJ published a Structure Reform plan confirming the decision to merge Her Majesty's Courts Service and the Tribunals Service from April 2011. HM Courts & Tribunals Service provides a single administrative structure, creating a joined up justice system and unifies service structure and administration.

The main benefits are to the users, and to taxpayers, in reducing the management overhead. The Courts and Tribunals Integration Programme is expected to realise financial savings of £35 million per annum by 2013-14. These efficiencies will be achieved through the redesign of the management structures at headquarters, regional and area levels, cutting out unnecessary activity and duplication, with shorter lines of command between the frontline and headquarters.

HM Courts & Tribunals Service Learning and Development designed and supported the successful delivery of tailored learning interventions for all staff from Bands A to D in the Sub-Cluster structure to support their new roles and ensure they have the tools they need. The Band

D intervention is currently being reviewed and refreshed to support the changes in performance management for Band E and F in 2013-14 and ensure they have the necessary skills to manage these staff effectively.

## **Develop a sustainable business model for civil, family and administrative justice which balances spending and income**

### **Civil and Family Justice**

HM Courts & Tribunals Service has played a leading part in implementing the recommendations made in the Family Justice Review. This includes allocating additional resources to the family courts, introducing a new care and supervision monitoring system, structured operational improvement plans, working closely with the judiciary to ensure a sharp focus on improving timeliness, and playing a leading role in the cross-agency Family Justice Board. While a great deal of work remains to be done, set against the context of continuing historically high levels of applications to the family courts, real progress has been made. In public law, in the third quarter of 2012-13, the average number of weeks taken to dispose of care and supervision cases improved, from the 56 weeks quoted in the Family Justice Review, to under 45 weeks. Progress is also being made in the proportion of these cases which are resolved within the 26 weeks period which will become the time limit when the Children and Families Bill is enacted. Importantly, improvements in the delivery of public law have not come at the expense of private law where, despite rising workloads, timeliness standards have been maintained.

We have commenced a project to implement a single family court in April 2014 that will put into operation key recommendations made in the Family Justice Review. The creation of the single family court, along with the single county court, will support the introduction of the new operating model by removing the geographical restrictions that can currently constrain cases being dealt with at the most appropriate venue. The new court will cut administration costs, improve case management, and further help reduce the time for cases to be completed. Meanwhile, in preparation for the changes to be made to legal aid provision for many people involved in private law family proceedings, we have developed guidance and information material to help litigants in person conduct their cases in the most effective way.

Following the government's response to the Solving Disputes in the County Court consultation, HM Courts & Tribunals Service introduced the small claims mediation automatic referral pilot in October 2012. This pilot, involving a small support team based at Salford to check parties' consent and fix mediation appointments, will inform plans to implement the policy of automatic referral to mediation in small claims thereby removing the need for a judge's prior permission. We are piloting changes to the provision of counter services in the civil and family courts to ensure the most effective use of limited resources, while maintaining customer service.

In addition HM Courts & Tribunals Service has successfully implemented the reforms set out by Lord Justice Jackson which will create a simpler, quicker and more proportionate civil justice system. Its aim will be to balance out costs for court users and, where appropriate, encourage the use of quicker and cheaper alternatives to court. The reforms will transform how civil claims are dealt with in county courts and improve the claims process for lower value personal injury claims, as well as raise the maximum amount for small claims and provide better enforcement for civil claims.

HM Courts & Tribunals Service has continued to explore the potential to modernise the way in which face-to-face services in the civil and family courts are provided through its public counters. To ensure that a clear focus of resources on those services which require face to face service and those which should be conducted through alternative means such as online or via the telephone can be achieved, a series of pilots were launched throughout 2012-13. These pilots will continue into 2013/14 where their effectiveness will be evaluated against the background of the proposed changes to legal aid.

## **Administrative Justice**

HM Courts & Tribunals Service provided the key support for MoJ to publicly consult on the design of a fees scheme for the Employment Tribunal and the Employment Appeal Tribunal. The Government Response to the Employment Fees Consultation for Tribunals was published in July 2012. A project is in place to introduce fee-charging mechanisms by the end of July 2013 which is estimated to increase HM Courts & Tribunals Service income by £7 million - £9 million per annum.

HM Courts & Tribunals Service have continued to build further capacity within the SSCS Tribunal during 2012-13 to react strongly to the challenge of increased appeals following the introduction of the Employment and Support Allowance and to prepare robustly for the government's welfare reform priorities, particularly the introduction of the Personal Independence Payment in April 2013.

Whilst the SSCS Tribunal has received record numbers of appeals this year, which are 36% above those received in 2011-12, waiting times at SSCS Tribunal centres have reduced from 23 weeks to 18 weeks and the number of disposals has remained at record levels of 465,497, compared to 279,264 in 2009-10.

This has been accomplished through a range of measures. In 2012-13 we have introduced bulk printing for all our processing centres, freeing up administrative resources to focus on processing appeals. We have worked with the judiciary to test changes to the process by which we allocate judicial resource to hearings. This improved process will be rolled out nationally and will result in greater flexibility in the way in which we deploy our current office holders. This in turn will allow us to target the areas that require additional capacity more effectively and enable us to increase the number of sessions we are able to hold.

We have successfully piloted running an additional session each day in venues in Glasgow and Hamilton and have agreed plans to roll-out flexible sessions across the whole of the tribunal in 2013-14 to increase the capacity and performance of the tribunal.

We have continued to work closely with DWP to identify improvements in shared processes. We have recently removed over 4,000 requests for duplicate tribunal orders, known as decision notices, from DWP by introducing e-channels to transfer these notices from hearings, freeing up administrative resource in the processing centres and delivering significant financial benefits to DWP by reducing overpayments in the order of £24 million.

We have worked with DWP and the judiciary to provide increased feedback from the tribunal to DWP on the standards of initial decision-making through introducing structured feedback into the decision notice issued after the hearing. We have also worked closely with DWP to implement mandatory reconsideration of original decisions for benefit claimants, and direct lodgement to the tribunal for subsequent appeals, from April 2013.

We have continued to build on tribunal capacity increases put in place in previous years, recruiting more judges and more medical panel members; further increasing administrative resources; securing additional hearing venues from across the courts and tribunals estate; running double shifts in our largest processing centre and running increased numbers of Saturday sittings in some of the busiest venues.

We have worked with UKBA to introduce digital channels between the Immigration and Asylum jurisdiction's administration and UKBA presenting officer units. Following a successful pilot in the North West they are now able share electronic copies of some appeal bundles at the beginning of the process in asylum appeals. The initiative will now be rolled out across the First-tier Tribunal in asylum cases and further work is planned to consider how it might be applied to non asylum cases.

We have also piloted the use of procured couriers for transporting appeal documents between the tribunal and a large overseas visa application centre, which has seen waiting time reductions of up to five weeks for tribunal users. We are working with UKBA to agree how we increase the use of this service more widely during 2013-14.

The use of magistrates' courts legal advisors as Registrars in tribunals was successfully piloted and evaluated in the Special Education Needs and Disability jurisdiction and has now been integrated into business as usual. Registrars help with case management and interlocutory work freeing more judicial time for hearings and complex matters. Pilots to introduce the role, to be referred to as Registrar, in the Mental Health jurisdiction and the General Regulatory Chamber are also underway and will save judicial time and deliver efficiency savings of £140,000.

The First-tier Property Chamber is scheduled to be launched on 1 July 2013. It will bring together the jurisdictions of the Residential Property Tribunal, the Adjudicator to the Land Registry and Agricultural Land Tribunals. The creation of the chamber will bring with it greater consistency of approach to property and land disputes through the introduction of a common set of procedural rules and unified judicial structure.

**Increase efficiency and reduce cost across the Criminal Justice System (CJS) by driving and implementing process change, matching resources to demand, reducing duplication and waste.**

HM Courts & Tribunals Service has supported the judiciary in successfully implementing the Early Guilty Plea scheme across all Crown Court centres. The scheme gives victims and witnesses earlier notification as to whether they are likely to need to give evidence, thus reducing the number of occasions witnesses attend court unnecessarily. Swifter sentencing also enables defendants to commence their punishment and rehabilitation earlier and Crown Court performance is improved, more efficiently utilising the time saved to prepare contested cases. The proportion of effective trials in 2012-13 compared to 2011-12 increased by 3.3 percentage points to 49.6%; ineffective trials reduced by 0.8% to 13.8%, and cracked trials reduced by 2.5% to 36.6%.

Similarly in magistrates' courts HM Courts & Tribunals Service has supported the judiciary in implementing the 'Stop Delaying Justice' initiative, which provides more effective case management so that listed trials go ahead on the day.

We have abolished the 'committal for trial' process in the magistrates' court for offences triable 'either-way'. Either way offences can be dealt with by both the magistrates' court and the Crown Court, so once the decision has been made to hear the case in the Crown Court, the abolition of the committal hearing will allow it to be 'fast tracked' into the Crown Court. The Crown Court will manage such cases from an earlier stage, removing unnecessary hearings and delays from the process. A phased implementation began, with two commencement orders abolishing the committal process in 25 Crown Courts and their committing magistrates' courts. Completion across the HM Courts & Tribunals Service estate is planned for 28 May 2013.

Additionally HM Courts & Tribunals Service has continued to support the drive for a more efficient operation of magistrates' courts through the Flexible Criminal Justice System initiative, running a number of pilots in magistrates' courts to test whether different ways of working can offer efficiencies to court users and CJS. This includes listing cases for hearing outside core hours and at weekends, and increasing utilisation of existing tools, such as Prison to Court Video Links.

Working with CJS partners we have undertaken a short piece of work to consider how the system deals with traffic cases – conclusions will be presented to ministers and subject to their approval work will be undertaken next year to reduce the time taken to charge, list and dispose of traffic offences. In addition we are working with the police and the Crown Prosecution Service (CPS) to test a best-practice model using a more proportionate approach to reduce bureaucracy

and ensure swifter justice where the police prosecute specified proceedings (especially low-level road traffic cases).

The Capita Translation and Interpreting (formerly ALS) contract for foreign language and British Sign Language interpreters commenced on 30 January 2012. Staff are able to book interpreters via a single online portal. Significant difficulties have been experienced with expected service standards not being achieved across all our courts and tribunal centres. This has caused some disruption to hearings, and additional time being spent by staff in making alternative arrangements when interpreter bookings have not been successful. During the year HM Courts & Tribunals Service has been working closely with the MoJ and Capita to ensure issues are resolved and the necessary service improvements are made. This work is continuing into the first quarter of 2013-14.

HM Courts & Tribunals Service has also evaluated and promoted the use of Postal Charging and Requisitions (PCR) by local police forces. PCR delivers a simpler and quicker way of instigating proceedings electronically. This has been partially rolled out and we will continue to support the Home Office in driving forward police uptake. We have also abolished the 19 Courts Boards in line with the government's plan to reform public bodies, saving HM Courts & Tribunals Service approximately £450,000 per annum.

The CJS Efficiency Programme is helping to modernise and reform the CJS into 'a simpler, swifter and more transparent service which meets the needs of victims and the public'. The programme is improving business processes and introducing technology to help reduce or remove the movement of paper, and people, around the system – enabling agencies to work together more effectively.

In delivering on phase 1 of the Programme and in working across the CJS, HM Courts & Tribunals Service achieved its objective for the majority of its magistrates' courts to be working digitally to 'the point of the court door' for first hearings.

Phase 2 is about in-court digital hearings. For the magistrates' courts, testing of wi-fi and in-court presentation facilities that allow evidence and documentation to be accessed, shared and presented digitally in the courtroom started in Birmingham in March 2013. Wi-fi is in place in an additional magistrates' court, and in a Crown Court to test the usage and user take-up in different conditions. The cross-agency efficiency benefits identified through testing will inform an options appraisal for investment cases. This will unlock funding for further testing in five further early adopter areas before the end of the 2013, with an objective of implementing a phased national rollout before the end of the financial year 2014-15. The testing will involve all key stakeholders - CJS agencies, defence solicitors, the magistracy, and our staff.

Work is also underway to progress digital working in the Crown Court. The requirement for a secure transport mechanism for the transfer of digital evidential material (documents and larger multimedia files) between CJS agencies and practitioners working in the Crown Court led to an increase in the HM Courts & Tribunals Service secure email limit in April 2013. Options for developing a digital courtroom solution that will allow all parties to operate digitally in the Crown Court are being considered in consultation with the judiciary and HM Courts & Tribunals Service. Following guidance from Cabinet Office the Programme has been working with the Government Digital Services (GDS) team to explore options for developing a Crown Court Digital Solution. Engagement has taken place with small to medium size enterprises as well as other potential suppliers and a shortlist drawn up for testing in live Crown Court trials in June 2013. This testing will help the programme refine the requirements for the final Crown Court digital solution.

In-court presentation facilities have been piloted that will allow evidence and documentation to be accessed and presented digitally in the courtroom

The upgrade and expansion of the video services for the Crown and magistrates' courts was completed. All Crown Court sites and 144 out of the 258 magistrates' courts now have at least one courtroom equipped with modern, secure, video endpoints. The video equipment can be used to allow defendants to appear in court from prison, or in some areas from the police station; the equipment can also be used to allow police witnesses to give evidence to the court from the police station or in certain circumstances for other witnesses to give evidence to court from a remote site.

**Delivering a cheaper, faster and more proportionate enforcement system that achieves a significantly higher degree of compliance with court orders**

During 2012-13 National Compliance and Enforcement Service standardised processes and have further reduced the overall cost of enforcement by 4.2% whilst performance has improved.

We reduced the outstanding balance of financial penalties by £17.8 million or 3% to £576 million. Cash collection levels of £284 million were 2% higher than achieved in 2011-12.

We have worked with other MoJ agencies and other government departments to improve sharing of information about debtors and plans to introduce supporting legislation and processes are in place.

HM Courts & Tribunals Service continues to develop the commercial model for the future provision of compliance and enforcement services. The model will need to achieve a balance of both a reduction in service costs and improved fines collection. During 2013, following appropriate approval and endorsement, we will implement delivery of this model.

PROTECT MANAGEMENT

**Honours and Awards**

**Honours**

	<i>Commanders of the Order of the British Empire (CBE)</i>	<i>Officers of the Order of the British Empire (OBE)</i>	<i>Members of the Order of the British Empire (MBE).</i>	<i>Medallists of the order of the British Empire (BEM).</i>
The Birthday 2012 Honours List			Henry Frydenson, for services to the community in North West London	Meryl Rawlings, Administrative Officer (Band E), Essex Magistrates' Courts Committee
The New Year 2013 Honours List		Pauline Donleavy, Registrar, Employment Appeal Tribunal, for services to the Administration of Justice	<p>Marilyn Darg JP, Magistrate and former Chair North Somerset Bench, for services to the Administration of Justice</p> <p>Diana Dishley JP, Magistrate and Founder of Your Life You Choose, for services to the community in Ealing, West London</p> <p>Jennifer Farmer JP, for services to the Magistracy in the South Lakeland Local Justice Area and to the communities of Skelmesbergh, Selside and Longsleddale in Cumbria.</p> <p>Dr Colin Bird JP, for services to the communities in Eastleigh and Southampton, Hampshire.</p> <p>The Reverend Canon Paul Denby DL JP, for services to the community in Greater Manchester.</p> <p>Paul Rossiter Newsome JP, for voluntary services to SSAFA Forces help in Dorset.</p> <p>Dr Madhu Pata Pathak JP, for services to the community in</p>	Patricia Ann Town JP, for services to the community in Steyning, West Sussex.

	<i>Commanders of the Order of the British Empire (CBE)</i>	<i>Officers of the Order of the British Empire (OBE)</i>	<i>Members of the Order of the British Empire (MBE).</i>	<i>Medallists of the order of the British Empire (BEM).</i>
			Romford, Essex.  Douglas George Reynolds JP, for services to the community in the Royal Borough of Kingston upon Thames, Surrey.  John Mason Stoddard JP, for services to the community in Letchworth, Hertfordshire.	

**HM Courts & Tribunals Service Awards**

116 nominations were submitted in this year's HM Courts & Tribunals Service National Awards scheme 2013. The finalists all attended the ceremony at the Royal Courts of Justice on 4 April 2013.

**National Government Finance Profession (GFP) Awards**

In November 2012, Martin Rowlands, HM Courts & Tribunals Service Regional Head of Finance for Wales won Finance Personality of the Year at the annual awards, which recognise and value the good work carried out by finance professionals in government.

## 6. Annual Accounts

### Chief Executive's report

The Chief Executive's report acts as management's commentary, as required by the 2012-13 Government Financial Reporting Manual (FRoM).

The investment and focus we have placed on implementing streamlined management and delivery structures have enabled us to deliver against our business priorities during a period of significant financial challenge. In response to the continuing difficult financial climate we are exploring proposals for the reform of the resourcing and administration of our courts and tribunals. As announced by the Secretary of State and Lord Chancellor in a written ministerial statement in March, we are assessing the way in which we deliver our services to provide a more efficient service which delivers value for money for the taxpayer. Work to assess viable options is underway with a consultation process anticipated to commence in Summer 2013.

### Accounts

The annual accounts of HM Courts & Tribunals Service for 2012-13 are on pages 57 – 116. The accounts have been prepared in accordance with the accounts direction issued by HM Treasury on 20 December 2012 under section 7(2) of the Government Resources and Accounts Act 2000.

The Accounting Officer for the MoJ has designated the HM Courts & Tribunals Service Chief Executive as the Executive Agency's Accounting Officer.

### Financial performance

#### Overall financial performance

HM Courts & Tribunals Service has reported annual net operating costs of £1,325m, a decrease of £104m (7%) compared to the annual net operating cost for 2011-12. As can be seen from the Statement of Net Comprehensive Expenditure this has arisen from a reduction in net programme costs of £121m and an increase in net administration costs of £17m.

Further information on the three major cost categories is set out below.

#### Staff and judiciary costs

The implementation of a streamlined operational structure which focussed on a reduction in management layers and the re-direction of resources to support posts responsible for the delivery of our services has resulted in a significant reduction in staff numbers and costs during 2012-13. Staff costs reduced by £86m compared to 2011-12, after allowing for the cost of exiting staff through the Voluntary Early Departure (VED) scheme. The average number of permanent full time equivalent staff fell by 1,846 compared to 2011-12.

#### Other operating costs (excluding non-cash costs)

There has been a continued focus during 2012-13 to drive down other operating costs. As a result other operating costs in 2012-13 have reduced by £13m compared to 2011-12. Accommodation, maintenance and utilities costs amounted to £237m in 2012-13, comprising 44% of cash other operating costs. Compared to 2011-12, accommodation, maintenance and utilities costs have decreased by £12.7m as a result of our strategy to rationalise our estate and close under utilised facilities.

There has also been a reduction in communications, office supplies and services of £5.5m compared to 2011-12. This has been driven by planned reductions in telecommunications

charges and stationery costs. Other judicial costs have reduced by £6.6m as a result of a reduction in interpreters' costs.

### **Depreciation**

The depreciation charge for the year was £102m, comparable to the charge of £104m in 2011-12.

### **Other non-cash costs**

Non-cash costs have reduced by £12.5m from £336.1m to £323.6m. An increase of £36m in the intra-departmental recharge has been offset by reductions in other categories. There has been a reduction of £7.1m to the charge resulting from movements in provisions. In 2011-12 there were impairments in the value of property and equipment which resulted in a charge of £21.5m. However, in 2012-13 there has been an increase in the valuation of property and equipment resulting in a gain of £10.6m.

### **Income**

Total operating income for the year was £595.5m (2011-12: £594.6m). This mainly consisted of fee income paid by users of the civil courts and tribunal services of £477.1m (2011-12: £479.6m). All fee charging services must have a financial objective agreed with HM Treasury; details for the actual and target fee recoveries are shown in note 5.2 to the Accounts. Increases in tribunals fees (£8.5m) and family (£4.1m) have been offset by a reduction in fees for money debt claims of (£12m) as a result of a reduction in the volume of money debt claims.

### **Capital**

The value of assets held as property and equipment at 31 March 2013 has increased by £39m compared to 31 March 2012. Additions to property and equipment of £78m and the impact of revaluation and impairment movements of £98m have been offset by a depreciation charge of £102m and transfers of assets to assets held for sale of £48m.

In December 2010 Ministers announced the decision to close 142 courts that were underutilised and had poor facilities. This, in addition to 20 courts announced for closure in March 2010, contributed to a disposal programme of 162 properties. During the year, 19 properties were sold, alternative use was found for five properties and 41 properties were classified as assets held for sale as at 31 March 2013, compared to 15 as at 31 March 2012.

Intangible assets decreased by £5m due to the net upwards revaluation gain of £9m being offset by amortisation charges of £15m.

### **Pensions**

Details of how pension costs and liabilities are treated can be found in note 1 to the Accounts, and further information relating to pensions is included in note 3 to the Accounts and in the Remuneration report.

### **Going concern**

The future financing of the MoJ liabilities is to be met by future grants of supply and the application of future income, both to be approved annually by Parliament. There is no reason to believe that future approvals will not be forthcoming and that the activities of HM Courts & Tribunals Service will not be funded in future financial periods. Accordingly, it has been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Any change to the future financing of HM Courts & Tribunals Service resulting from the possible reform of the resourcing and administration of our courts and tribunals will be subject to parliamentary scrutiny.

## Charitable donations

The Agency made charitable donations totalling £65,000 in 2012–13 (2011–12: £96,000). These donations were made to charitable organisations to support activities related to the Agency's operations.

## Payments

HM Courts & Tribunals Service's policy was to pay suppliers within five days of receipt of a valid invoice at the correct billing address.

For 2012-13, 86.5% of invoices were paid within these terms against the cross-government target of 80% (2011-12: 86.6% against a target of 80%).

## Capital structure

HM Courts & Tribunals Service's net assets were represented entirely by taxpayers' equity, consisting of the General Fund and the Revaluation Reserves as detailed in the Statement of Changes in Taxpayers' Equity.

## Auditor

The Accounts, comprising the Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of Changes in Taxpayers' Equity and Statement of Cash Flows are audited by the National Audit Office on behalf of the Comptroller and Auditor General. The auditor's remuneration for the audit of the Accounts of HM Courts & Tribunals Service for 2012-13 was £0.3m (2011-12: £0.5m), no non-audit work was performed in 2012-13 or 2011-12.

## Sickness absence data

The average number of working days lost ("AWDL") due to sickness for staff across HM Courts & Tribunals Service was 9.17 days against the MoJ target of 7.5 days. Reducing sickness absence is a workforce strategy priority and HM Courts & Tribunals Service is committed to further reducing sickness absences in order to fulfil our Smarter Government commitments.

## Engagement and consultation with employees

HM Courts & Tribunals Service participated in the Civil Service People Survey in October 2012 and achieved an improved response rate of 75%. The Engagement Index rose by two points to 51, the equal second highest score for organisations with staff in excess of 7,500. The scores given by staff increased in seven of the nine themes compared to the previous survey.

The highest improvements were in Leadership and Managing Change and Learning and Development. Both themes were identified by the Senior Management Team as priorities for action following the 2011 survey results. Within the Leadership and Managing Change theme, staff reported they were more positive about all facets of leadership, but particularly senior manager visibility and clarity of the Senior Management Team (SMT) vision. Managers at all levels engaged with staff about both the outcome of the survey and action plans to respond to the results.

## Equality and diversity

HM Courts & Tribunals Service is committed to ensuring that we consider thoroughly the diverse needs of our staff and all those with an interest in the services we provide. We promote a culture where staff and service users are treated with fairness and respect. We ensure that we are sensitive to the needs of those who are vulnerable or socially excluded.

HM Courts & Tribunals Service works hard to ensure equality for disabled staff and customers. We have a Reasonable Adjustment Policy under which advice, support and guidance are provided on the wide variety of adjustments available to disabled staff and customers. Guidance on supporting disabled staff and providing reasonable adjustments is incorporated in the MoJ Ability Manual. The department is an authorised user of the Two Ticks Scheme and participates in the Guaranteed Interview Scheme for candidates with a disability.

Following implementation of the Equality Act 2010, which consolidated and strengthened equality law, HM Courts & Tribunals Service has reviewed and updated its internal guidance and training to ensure that all our staff understand how to meet the legal requirements of the Act in their daily work in all areas of our business.

The general equality duty introduced by the Equality Act 2010 requires all public bodies to consider the needs of all individuals in shaping policy and delivering services in relation to their own employees. HM Courts & Tribunals Service demonstrates the necessary due regard to this duty by assessing equality impacts at the start of and during the phases of policy development, which ensures that the right steps are taken by the right people at the right time.

In paying due regard to the equality duty, HM Courts & Tribunals Service takes a light touch approach which focuses on achieving effective outcomes and reduced unnecessary bureaucracy. We are currently reviewing the equality information we collect and publish to help the public to understand what we do.

### **Principal risks and uncertainties of the business**

HM Courts & Tribunals Service faced challenges and risks to the achievement of its business objectives as highlighted in my governance statement below. A detailed risk management strategy has been in place throughout the year in relation to each of these risks to ensure organisational risks were effectively managed.



**Peter Handcock CBE**  
**Chief Executive and Accounting Officer**  
**21 June 2013**

## Statement of Accounting Officer's responsibilities

Under section 7(2) of the Government Resources and Accounts Act 2000, HM Treasury directed HM Courts & Tribunals Service to prepare for each financial year a statement of accounts (the Accounts) in the form and on the basis set out in the Accounts Direction issued by HM Treasury on 20 December 2012. The Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the agency and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

The Principal Accounting Officer for the MoJ has designated the HM Courts & Tribunals Service's Chief Executive as HM Courts & Tribunals Service's Accounting Officer.

In preparing HM Courts & Tribunals Service's Accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- Observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed and disclose and explain any material departures in the Accounts;
- Prepare the Accounts on a going concern basis; and
- Ensure that, so far as the Accounting Officer is aware, there is no relevant audit information of which the entity's auditors are unaware. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that HM Courts & Tribunals Service's auditors are aware of that information.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding HM Courts & Tribunals Service's assets and for preparing HM Courts & Tribunals Service's Accounts, are set out in the Accounting Officer's Memorandum issued by HM Treasury and published in Managing Public Money.



**Peter Handcock CBE**  
**Chief Executive and Accounting Officer**  
**21 June 2013**

# Governance Statement 2012-13

## 1 Introduction

- 1.1 This Governance Statement is provided in my role as Accounting Officer for HM Courts & Tribunals Service.
- 1.2 HM Courts & Tribunals Service is an agency of the Ministry of Justice (MoJ) whose key aim is to run an efficient and effective courts and tribunals system which enables the rule of law to be upheld and provides access to justice for all.
- 1.3 As Accounting Officer I have established a governance framework and management structure for the organisation to support me in the management of our key risks. I am satisfied that I have the necessary systems and processes in place to maintain an effective system of internal control which supports the achievement of policies aims and objectives whilst safeguarding the public funds and assets for which I am personally accountable.
- 1.4 HM Courts & Tribunals Service operates in accordance with its published Framework Document which sets out the basis of an operating partnership between the Lord Chancellor (Secretary of State for Justice) and the Lord Chief Justice. As Chief Executive I am responsible to both, for the day-to-day operations and administration of the agency and leadership of its staff. As Chief Executive and Accounting Officer I am also accountable to the MoJ Permanent Secretary and ultimately to Parliament.
- 1.5 This is the second full year for the new agency and we have continued during this year with our major programme of organisational reform. We have already achieved a great deal, including the streamlining of our headquarters, regional and sub-cluster (front line) structures and work has also progressed this year on the restructuring of the legal management function. There is still more work to do including follow up reviews which will be undertaken after a suitable bedding in period and the subsequent implementation of any recommendations arising from the reviews.
- 1.6 Despite all of the ongoing change activity that has been in progress we have seen an improvement in our overall performance (See section 4 of the Annual Report).
- 1.7 Our control framework has enabled us to deal effectively with a number of significant risks and control issues as reported throughout this statement.

## 2 Governance Framework and Management Structure

- 2.1 Significant aspects of the management structure and framework are detailed below. To ensure continual effectiveness, self-assessment reviews have been carried out during February and March 2013.
- 2.2 **HM Courts & Tribunals Service Board** - the Board provides a vital role in shaping and directing the organisation ensuring we are equipped to deliver high quality and cost effective services to court and tribunal users. It provides leadership on the broad direction for the organisation in delivering the aims and objectives agreed by the Lord Chancellor and the Lord Chief Justice. The Board has overall responsibility for Corporate Governance within HM Courts & Tribunals Service.
- 2.3 The Board operates within the parameters of the Framework Document and the agreed Terms of Reference. Both of these documents are published on the organisation's intranet.
- 2.4 In February 2012, the results of the first Board effectiveness review were summarised into a report, identifying key actions for 2012-2013. Progress against these actions includes:

- Board Secretariat briefings for the Chair and the Chief Executive to enable relevant and regular updates to Board members on the outcomes of meetings with Ministers and other key stakeholders at the monthly Board meetings;
- Enhanced reporting from the Change and Modernisation sub-Committee to the Board achieved through a more comprehensive summary within the Balanced Scorecard; circulation of the agreed minutes each month; and regular attendance of the Change and Modernisation sub-Committee Chair at the Board to report on performance of the Change Portfolio. Furthermore, a Non-Executive Member of the Board now sits as a member of the Change and Modernisation sub-Committee;
- The Board continually exercising governance arrangements on service delivery where accountability and expenditure is devolved to partner organisations by inviting appropriate representatives to attend the Board and provide necessary assurances. This has been further enhanced by a standing invitation accepted by the Director General, MoJ Finance and Corporate Services, to attend each Board; and
- Continued development of Board members through regular visits to courts and tribunals to enhance their understanding of the business; and through on going communications from the Board Secretariat.

2.5 A commitment was given by the Chair of the Board that an independent evaluation of the effectiveness of the Board would take place in late 2012–13. In December 2012, Board members completed the ‘Board Evaluation Questionnaire’. The results outlined below were analysed by National Audit Office (NAO) and they presented the findings at the February 2013 Board.

- Overall results viewed effectiveness of the Board to be very positive with clear improvements when compared to results from early 2012;
- Members feel the Board operates cohesively, supports and constructively challenges management, and works effectively as a team. Members agree that performance information, reporting, and understanding is a key strength of the Board and that there has been substantial improvement in most aspects of risk management;
- Areas of common concern for members includes scope for further formal assessment of the Board’s performance; future cash flow projections; and further clarity on assurances where delivery is devolved to the Ministry or others; and
- Following the presentation in February, the Board committed to take the results away for further consideration and would strive to continually improve its effectiveness over the coming year.

2.6 There are three formal sub-Committees to the Board which are:

2.7 **The Audit Committee** - the Audit Committee is an advisory body which supports the Chief Executive in his role as Accounting Officer, and the Board in their responsibilities for risk management, control and governance. The Committee reviews the comprehensiveness of assurances from internal and external audit, executive management and other sources, and reviews the reliability and integrity of those assurances. The Chair of the Committee provides a report highlighting and escalating issues to the Board after each quarterly meeting.

2.8 In March 2012 the Committee undertook its first annual self-assessment effectiveness review and identified a number of key actions for further improvement during 2012-13. Key progress against these actions include:

- The Audit Committee continues to engage with Internal Audit to ensure more effective delivery of audit activity. Pre-meetings were held with the new Head of Internal Audit and Assurance and a session to discuss Internal Audit Planning activity for 2013-14 was held in March 2013; and

- The Board Secretariat considered the continuous development of Audit Committee members and provided an opportunity to attend internal and external events, sharing handout material where appropriate. This included a tailored accounts workshop, facilitated by the NAO and the Finance and Governance Directorate.

2.9 A further action identified was for an independent assessment of the committee to be held during 2012-13 and NAO were invited to do so in February 2013. Following the assessment, key actions arising for 2013-14 included:

- Closer engagement with Audit Committee members on planning activities in the Internal Audit Annual Audit Plan;
- Additional expertise to be commissioned as and when required to support the Committee in relation to particular pieces of Committee business. It was agreed this should be reflected in the Terms of Reference for the Audit Committee; and
- Audit Committee members to have a pre-meet before the main meetings to discuss any issues and agree how agenda items should be handled to maximise the effectiveness of the Committee and make best use of the time available for discussion.

2.10 **The Change and Modernisation sub-Committee** - the Committee has overall responsibility for developing and promoting change to deliver the strategic objectives for the organisation on behalf of the Board, supporting the Board in its delivery of the agency strategy, policies and services.

2.11 An effectiveness review was initially undertaken in March 2012 led by the Chair of the sub-Committee. The outcome of the discussion highlighted a number of key actions for 2012-13. Progress against these actions include:

- Heightened awareness on the purpose and role of the sub-Committee, and of its current reporting processes. This has been achieved through dedicated intranet pages being developed and successful creation and implementation of the HM Courts & Tribunals Change Approval Process Standard Operating Procedure (SOP). Furthermore, an independent P3M3 review (project management maturity self assessment) on MoJ Change Governance concluded that HM Courts & Tribunals Service Portfolio Management had a maturity assessment rating of three;
- An enhanced Monthly Financial Report achieved by reporting slippage in forecasts, and actual expenditure against planned expenditure, with re-allocation of budgets where appropriate. This is further supplemented by a quarterly report on the life-cycle of benefits on a project by project basis showing both gross and net benefits; and
- The restructure of the Portfolio Office, and an established Portfolio Project Plan for 2012-13. This has ensured links throughout the portfolio and wider business and enabled prioritisation of projects and resource.

2.12 A commitment was given by the Chair of the sub-Committee to further evaluate the sub-Committee's effectiveness in late 2012-13. During March and April 2013, members completed a 'Change and Modernisation sub-Committee Effectiveness Review Questionnaire'.

2.13 Emerging findings indicate an 83% positive response in the category on 'Objectives, Strategy and Remit'; an 80% positive response on 'Performance Measurement'; a 70% positive response on Risk Management; a 69% positive response on 'The Board Room'; and a 98% positive response on 'Sub Committee Support'.

- 2.14 More detailed analysis is being collated by the Secretariat and will be presented for further discussion and action planning at the Change and Modernisation sub-Committee in mid 2013.
- 2.15 **The Health and Safety Committee** - the Committee is an advisory body that supports the Chief Executive as Accounting Officer and the Board in their responsibilities for managing risk and establishing effective control for health and safety. The Committee promotes health and safety throughout the organisation and ensures we meet agreed standards including legal obligations.
- 2.16 The Chair of the Health and Safety Committee conducted its first effectiveness review at the meeting in March 2012. There were no actions identified and it was concluded all attendees were content with the effectiveness of the Committee. The Chair gave a commitment at the meeting that performance of the Health and Safety Committee will continue to be considered and reviewed to ensure ongoing effectiveness.
- 2.17 In February 2013, the Chair invited attendees of the Committee to consider a set of facilitated questions to prompt discussion on the effectiveness of the Committee and to identify any actions for further improvement during 2013-14. The key actions arising were:
- Improve the mechanisms by which members can remotely contribute to meetings by ensuring video-conference/telephone-conference facilities are available and working effectively; and
  - The Head of Security and Safety to circulate to members the Annual Health and Safety Report for the Chief Executive.
- 2.18 All attendees were content with the support provided to the Committee.
- 2.19 Full details of the membership and attendance records of the Board and its sub-Committees are shown in tables one to four in the Appendix.
- 2.20 The following form part of the wider HM Courts & Tribunals Service management structure:
- 2.21 **The HM Courts & Tribunals Service Senior Management Team (SMT)** - the Chief Executive and his lead Directors of all functions make up the SMT. The team meet weekly to review performance across the organisation and deal with all other business that may arise. SMT is also responsible for reviewing the corporate risk register on an alternate monthly basis.
- 2.22 **Delivery Directors Forum (DDF)** - on a monthly basis the Chief Executive meets with his Regional Delivery Directors, enabling regional operational business as usual activity to be discussed and to provide an opportunity to raise any issues or concerns.
- 2.23 **Governance Working Group** – was established during the first year of HM Courts & Tribunals Service to support the development of the control framework for the new organisation. The key aim of the group is to ensure that appropriate and proportionate governance arrangements are developed, and where required enhanced to underpin the new streamlined governance structure.
- 2.24 The Group has been chaired by the Finance and Governance Director since the departure of the former Delivery Director for London. Other members represent jurisdictional policy leads, Internal Audit, the Head of Governance and Assurance and representing front line operations, three court and tribunal Cluster Managers. The group also includes a Non-Executive Member of the Audit Committee which provides a key feedback and challenge loop to the Audit Committee.

2.25A key activity for the group this year has been oversight of the development and implementation of the new operational assurance Standard Operating Control Self Assessment tool, which is described in more detail later.

### **Corporate Governance in Central Government Departments - Code of Good Practice 2011**

2.26The Code, published by HM Treasury during 2011 applies directly to the MoJ. HM Courts & Tribunals Service has adopted key principles as best practice where appropriate. A review of the code this year has identified that we are still compliant with key and material principles. The only exception as reported last year is the requirement for a Nominations Committee. The key functions of this Committee are dealt with through the MoJ Workforce Committee and also under the remit of the HM Courts & Tribunals Service Board who have the responsibility for approving the corporate governance framework and controls. As such I do not consider it necessary for this separate Committee to be established within the organisational structure.

## **3 Risk Management**

- 3.1 Risk Management systems are in place to identify, assess and prioritise risk efficiently and effectively, and to ensure risk is managed to an acceptable level.
- 3.2 The organisation had in place throughout the year a risk management framework to identify, monitor, manage and report the risks or threats to the achievement of its objectives. The risk policy encompasses Regional, Central Directorate and Corporate level and enables risks to be managed at the appropriate level, escalating where necessary. An internal audit review of risk management concluded in an “amber/green” assessment. This means that although there are some weaknesses in control design or operation of controls, they do not require significant improvement in order to manage risks to the achievement of system objectives and the relatively minor recommendations identified have been addressed.
- 3.3 A reporting tool, the Risk and Assurance Management Tool, operates at Cluster Manager and Justices Clerk level in place of formal risk registers and enables effective management of risks identified at the operational (administrative) and legal levels.
- 3.4 A process is also in place to enable escalation of risks to the MoJ Corporate Risk Register if risks breach the organisation’s tolerance level. The MoJ are regularly provided with copies of the Corporate Risk Register.
- 3.5 During April 2012 the SMT and Regional Delivery Directors took part in a risk workshop to identify the key risks to achieving the organisation’s objectives as set out in its business plan. The identified risks were subsequently endorsed through the Board and monitored and managed by the SMT through alternate monthly reviews of the risk register. The risk register is also reviewed by the Audit Committee and the HM Courts & Tribunals Service Board every six months.
- 3.6 Key risks identified through the workshop and included in the risk register were related to residual restructure issues; such as staff capacity and engagement, potential failure of the new organisational structure and impact to our performance. These risks have been managed and mitigated during the year and have been reduced to a tolerable level or removed from the risk register altogether. The most significant risks at year end include:
  - **Shared Services (including new contracts for Total Facilities Management, Prisoner Escort Services, and the Interpreter Contract) not meeting the business needs of the organisation.** A number of essential operational services are provided through contracts procured centrally by the MoJ. Issues with service delivery have been addressed with senior level intervention in the contract management process and with

more effective joint work between operational, contract management and procurement teams.

- **ICT capacity capability and funding inadequate to support effective business change.** Management activity has targeted investment at business plan priorities with all ICT change activity subject to robust business cases presented to the Change and Modernisation sub-Committee. We have worked with suppliers to maximise day to day savings including the exploitation of procurement plan savings initiatives. Improvements have also been made in matching demand and supply with capability and capacity.
- **Issues leading to reputational damage to the organisation and the damage to public perception.** Work is in hand to further improve the level of assurance about compliance with key controls to prevent operational issues that will impact serviced delivery and damage the reputation of the organisation.
- **Failing to deliver our elements of the Criminal Justice Service (CJS) efficiency programme on time.** The efficiency programme has comprehensive cross CJS governance in place to ensure that all agencies and elements of the programme are progressed in accordance with the ambitions set by Ministers and the Senior Responsible Owners. The Programme Board and Business Design Authority have strong representation from HM Courts & Tribunals Service. At all levels the programme and HM Courts & Tribunals Service staff work closely together to deliver and monitor progress of delivery and the programme office has a number of HM Courts & Tribunals Service staff seconded to help cement the relationships.
- **Potential significant security and safety issues.** Key mitigation includes work overseen by the National Health and Safety Committee, development of revised and robust policies endorsed through the HM Courts & Tribunals Service Board, and health and safety controls being encompassed within the Standard Operating Controls Self Assessment tool. There are also strong links with the Judicial Standing Committee on security.
- **Social Security and Child Support capacity and meeting the increased predicted workload.** Work to ensure HM Courts & Tribunals Service could meet anticipated workloads focussed on delivering improved levels of performance and increasing capacity across the tribunal's resources in terms of venues, judges, members and staff. This investment in capacity has seen an improving level of performance with waiting times and the age of the caseload reducing.

These risks continue to be managed robustly and will be carried forward to the risk register for 2013-14 if still considered a significant threat to our objectives.

#### *New Risks and Updates to Ongoing Risks*

**3.7 Language Services Contract** - we reported last year on performance issues that had arisen following the award of a contract for the provision of interpreter services to the MoJ. The contract was awarded to Applied Language Solutions, but has subsequently been transferred to Capita. The issues, including lost and disrupted hearings, were caused by the lack of an adequate number and quality of interpreters available through this contract. The risk management frameworks did not mitigate this risk adequately. In particular the risks were not sufficiently recognised and the processes for escalation of identified risks were not sufficiently clear and hence were not escalated when they should have been. The issues were raised with the NAO and Public Accounts Committee (PAC) by MPs and members of the public. The NAO investigated and published a report highlighting a number of issues with the contract and its performance. This attracted adverse media coverage and the HM

Courts & Tribunals Service Chief Executive and MoJ Director General Finance appeared before a Public Accounts Committee hearing. Remedial plans are in place to recover performance and service levels are being monitored closely, jointly with the contractor.

- 3.8 **Resulting processes** - we reported last year that a member of staff at a magistrate's court was found guilty of offences under the Bribery Act after manipulating the recording of traffic offences for personal gain. After a thorough internal investigation new mandatory controls were implemented to address potential weaknesses in internal systems. The police investigation is Ongoing.
- 3.9 An unrelated case with similar circumstances is also subject to legal proceedings.
- 3.10 **The Government Banking Scheme (GBS)** - we reported last year that audit work and management investigations had highlighted weaknesses in the reporting and reconciliation of financial transactions in Crown and county courts, with delays and errors in reconciling suspense accounts held locally at courts. These are internal recording issues and we are confident that all monies received and paid out are accurate. These issues are being addressed through a full review of the complex banking systems in operation across HM Courts & Tribunals Service, with the aim of simplifying systems and further improving financial control.
- 3.11 **PentiP Enforcement System** – a new system is being implemented by the Home Office to record fixed penalty notices issued by the police and collected by HM Courts & Tribunals Service. Implementation in Fixed Penalty Offices has been affected by some performance and reliability issues which resulted in processing backlogs at HM Courts & Tribunals Service sites. The issues also led to problems and delays in the reconciliation process. Technical improvements have been implemented and action to introduce additional processing capacity has successfully reduced backlogs.
- 3.12 **Fee collection** – reports from external and internal auditors have supported findings from internal management systems, highlighting weaknesses in the administration and collection of fees in county courts. The system is complex and burdensome for staff, which results in errors at local level. Work is underway in the MoJ to simplify and streamline the fee and remissions structure which will help reduce administration. Internally, we are responding directly to all audit recommendations and a review is underway to determine whether staff training and existing control systems can be improved.

#### *Fraud and Irregularity Risk Management*

- 3.13 HM Courts & Tribunals Service, in line with policy across government, has a zero tolerance toward fraud and irregularity. To reduce and manage the risk we have in place:
- An effective control framework which has embedded within it fraud risk controls which are designed to prevent, detect and deter fraudulent activity;
  - A rigorous fraud response plan and a well managed incident management process;
  - A well defined and expedient investigation process focussed towards financial recovery;
  - Representation on the MoJ organisation wide Counter Fraud Group;
  - An active counter fraud strategy including whistle-blowing policy;
  - A team of specialist officers dedicated to managing and investigating fraud and irregularity incidents; and
  - A pan government mandatory training package and assessment that all staff and managers in HM Courts & Tribunals Service are required to undertake and pass.

3.14 The overall value and numbers of incidents of identified fraud within HM Courts & Tribunals Service is relatively low given the nature and size of the organisation and volume of transactions undertaken daily. Frauds perpetrated against HM Courts & Tribunals Service include those perpetrated externally by third parties and internally by members of our own staff. Every incident reported through the designated fraud reporting route is investigated thoroughly and where proven criminal activity has taken place we will inform the police, seek a prosecution and take appropriate disciplinary action.

#### *Health, Fire Safety and Security Risk Management*

3.15 The HM Courts & Tribunals Service Security and Safety Team work with a dedicated team of Regional Security, Health, Safety and Fire Safety Officers who are based within the Regional Support Units. Their role is to effectively manage all security and safety risks within their respective regions. As the management of these areas has continued to be in transition resulting from the restructure, throughout 2012-13, the audit assessment for this period remains amber / red. This means that a major weakness or a number of significant weaknesses in control will prompt improvement in the design and / or operation of control required and system objectives only partly achieved and risks are not effectively managed.

3.16 This assessment is based upon this high risk area still requiring attention to address identified weaknesses. These weaknesses continue to be around an inconsistent application of roles and responsibilities and the continuing application of legacy arrangements following the merger in 2011. The Audit Committee have been kept abreast of these ongoing issues and as a result, HM Courts & Tribunals Service Security and Safety have developed a consistent and measurable new Security, Health and Safety and Fire Safety Policy which aligns all arrangements and mitigates against the risks the disparity might have caused. The new policy has been approved by the HM Courts & Tribunals Service Board and is being implemented in 2013-14.

3.17 A key area of the new policy is the creation of a Security and Safety Review Board. This new Board will be chaired by the HM Courts & Tribunals Service Finance Director and Board membership will comprise senior operational and judicial stakeholders.

3.18 The role of this Committee will be to review all security and safety arrangements within HM Courts & Tribunals Service at a strategic level, providing additional assurance to the HM Courts & Tribunals Service Chief Executive as Accounting Officer that our arrangements are proportionate and meet our corporate objectives.

#### *Information Risk Management*

3.19 HM Courts & Tribunals Service is committed to ensuring public data is appropriately protected and work is Ongoing in these areas to ensure the agency fulfils its obligations to the public. The organisation has information assurance arrangements in place. The Senior Information Risk Owner (SIRO), who sits at Board level, leads and directs information assurance to ensure compliance with the mandatory government standards set out in the Security Policy Framework and is supported by a dedicated and specialist information assurance team. There has been work underway during this year to ensure we are compliant with these requirements.

3.20 Key controls that we have in place to manage our information assurance responsibilities include the following.

- The appointment of the Information Security Group, with a constitution consisting of staff from key strategic positions within the business.
- All staff annual mandatory Information Assurance training has been completed and new staff have completed on-line training on appointment.

- Mandatory SIRO training completed.
- Nominated Information Asset Owners (IAOs) have successfully completed their mandatory training and attended targeted training in relation to their roles.
- A centrally managed, combined Information Asset Register (IAR) with the former HM Courts Service & Tribunals Service assets recorded in one register.
- Data Sharing Agreements with suppliers, other government departments and research bodies to share personal information that has been entrusted to us.
- Ongoing compliance reviews within courts and tribunals to review the effectiveness of policies, guidance, procedures and processes
- Effective data incident procedures that ensure losses are reported, escalated in a timely manner and dealt with at the appropriate level within the agency.

3.21 There are a number of minor areas where we have identified that we are not compliant with the Security Policy Framework mandatory requirements. This is due to the change and restructuring of the Agency. These include the following.

- A review of the combined and integrated Information Asset Register has enabled us to identify some minor gaps in our asset ownership. Steps are being taken to rectify this in time for Quarter one 2013-14.
- Formal quarterly information risk assessments of information assets did not take place; however, information risk assessments were undertaken by Centre Managers and Tribunals Managers on an ad hoc basis. Also, any changes to the risk of an asset are required to be reported through the risk and assurance framework.
- A formal annual risk assessment of assets has not yet taken place. It is anticipated that this will be carried out once the asset register has fully identified ownership of some minor assets. Any changes to the risk of an asset are required to be reported upon through the existing assurance framework.

3.22 A number of breaches of Information Security were reported during the year. Two relate to failures to protect the identities of vulnerable parties in sensitive family cases. Mitigating actions have now been put in place to reduce the risk of recurrence. Role specific training delivered by the HM Courts & Tribunals Service Information Assurance Team has been given to local Managers to raise their awareness of the issues identified as a result of investigations into these incidents.

3.23 A further breach relates to “PentiP” (the new enforcement management system) after failings by the Home Office to control information in their national system for recording and processing penalty notices, which is used by HM Courts & Tribunals Service fixed penalty staff. This led to the integrity of a number of cases being affected and duplicate fines and notices being issued. The Home Office voluntarily reported to the Information Commissioner who has decided to take no further action. Additional measures have now been put in place in conjunction with the Home Office to tighten procedures and reduce the likelihood of recurrence.

3.24 The vast majority of other data incidents related to losses of Driving Licences during despatch, although losses represent less than 0.01% of all licences despatched annually and the number of incidents was lower than the previous year. Work is ongoing with DVLA and our third party supplier to find ways to further reduce the number of losses.

## 4 Oversight and Assurance

- 4.1 As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of my executive managers who have responsibility for the development, maintenance and reporting of the internal control framework, together with observations made by the external auditors in their management letters and other reports.
- 4.2 The organisation has in place control processes to provide management with assurance over financial and operational risks. These processes are subject to continuous improvement and review to ensure they remain current, effective and relevant. These processes are set out below.
- 4.3 **Standard Operating Controls (SOC) Self Assessment Tool** - during this reporting year HM Courts & Tribunals Service has rolled out a new operational assurance reporting tool to all its courts, tribunals and operational units. This was a significant undertaking for the organisation accomplished in a relatively short timescale enabling its full implementation from the start of the quarter two reporting period.
- 4.4 The SOC is an assurance tool designed to report the level of compliance with mandatory controls set out in Standard Operating Procedures (SOPs) in place at operational level.
- 4.5 As part of our approach to continuous improvement, we are acting on feedback that there are too many SOPs and that the essential controls are not always highlighted for staff. Work has already commenced on improving the design and implementation of SOPs to ensure they support and meet the needs of staff and customers and clearly identify those processes that carry the highest risk and are crucial to the delivery of our key objectives. This work will continue into the new reporting year delivering an enhanced assurance going forward.
- 4.6 In the interim period the SOC tool itself is still in a period of embedding and developing for the operational and legal teams. Staff and managers are being supported and receiving ongoing guidance and training to ensure the tool is fully understood and effective in providing the organisation with operational assurance. The tool has been further enhanced by the development and implementation of a database which will provide managers with reports on assurance activity and identifying control weaknesses, risks and trends. This will be fully operational from the first quarter of the new reporting year.
- 4.7 **Director level Quarterly and Annual Governance Statements** - all Central and Regional Directors submit quarterly statements, which include control issues raised by directorate and regional management teams, and escalated and reviewed by Senior Management Teams. These statements include reporting on sources of internal control and this in turn provides assurance of managements' compliance with operational policies, procedures and established key controls. The process has been enhanced this year with the development of a refined annual statement providing closer alignment to the corporate level statement and providing an opportunity to ensure issues are appropriately escalated.
- 4.8 In addition, the Board and I gain assurance through the following.
- Up to date and comprehensive reports on finance and performance submitted at their regular meetings
  - Financial and administrative procedures which includes delegations of financial authority and segregation of duties on key financial processes.
  - The MoJ which provides a number of services to the agency, to improve value for money and to support the development of consistent professional corporate services. In the

areas of HR, IT, procurement services and estates management, HM Courts & Tribunals Service draws assurance of adequacy and effectiveness from MoJ. In addition, Directors of HR and IT are members of the HM Courts & Tribunals Service SMT, reporting directly to the Accounting Officer and Chief Executive providing regular updates on risks and issues within their respective arenas. The Director of Finance and Governance is a substantive member of the MoJ wide Procurement Committee which provides executive level oversight of procurement activity across the whole of the MoJ.

- The Board being updated on the risk profile and effectiveness of the systems of internal control through the receipt of minutes from the Audit Committee, through a review of the HM Courts & Tribunals Service performance reports and through direct feedback from the Chair of the Audit Committee. The Board are also provided with the risk register on a six monthly basis.
- The Audit Committee which oversees the adequacy and effectiveness of the risk management processes and the system of internal control for the organisation. The Committee regularly reviewed the corporate risk register and the production of the Annual Report and Accounts for the agency. The Audit Committee Chair has free and confidential access to the MoJ Audit Committee Chair, the Internal Audit and Assurance Division and the external auditors as required.
- Value for Money and other reports produced by the NAO. There have been no reports directly applicable to HM Courts & Tribunals Service during this reporting year. There was however a report investigating the contracting out of the interpreter system and this is referred to earlier in this statement.
- One of the key sources of independent assurance within the agency comes from the activities of its Internal Audit service provided by MoJ Internal Audit and Assurance, which meets the Government Internal Audit Standards. The internal audit programme is closely linked to the key risks to the agency and arrangements are in place to ensure that the Accounting Officer is made aware of any significant issues which indicate that key risks are not being effectively managed.
- The Head of Internal Audit's overall opinion for 2012-13 is 'reasonable assurance'. This represents an improvement on the opinion provided last year. The majority of internal audit reports issued in the last year have been rated Green or Amber/Green as a result of an improvement in controls. There have still been some areas of weakness identified in 2012-13, notably in relation to the 'resulting' systems in the courts and collection of court fees and fines arising through fixed penalties, but these are isolated to specific systems and processes, and when taken in aggregate they are not pervasive to the system of internal control as a whole
- In 2013-14 internal audit will focus more resources to review and advise on the control and governance risks arising from the significant change agenda faced by the agency.



**Peter Handcock CBE**  
**Chief Executive and Accounting Officer**  
**21 June 2013**

## Attendance at HM Courts & Tribunals Service Board and Committees

**Table 1: - HM Courts & Tribunals Service Board**

<b>Members</b>	<b>No. meetings eligible to attend out of a possible 10</b>	<b>No. of eligible meetings attended</b>
Robert Ayling – Independent Chairman	10	10
Francis Dobbyn – Non-Executive Member	10	8
Alison White – Non-Executive Member	10	9
Lord Justice Carnwath – Senior President of Tribunals (until 16/04/12)	0	0
Phillip Sycamore - Interim Senior President of Tribunals (from 17/04/12 to 24/06/12)	2	2
Lord Justice Sullivan - Senior President of Tribunals (from 25/06/12)	8	7
Lord Justice Goldring – Senior Presiding Judge (until 31/12/12)	8	6
Lord Justice Gross - Senior Presiding Judge (from 01/01/13)	2	2
District Judge Michael Walker – Judicial Member	10	10
Peter Handcock – Chief Executive	10	10
Steve Gillespie – Director of Finance and Governance	10	10
Shaun McNally – Director of Crime (until 19/10/12)	5	3
Chris Jennings – Covering Director of Crime (from 22/10/12 to 31/12/12)	3	3
Guy Tompkins – Director of Crime (from 01/01/13)	2	2
Kevin Sadler – Director of Civil, Family and Tribunals	10	10

- *Other members of the SMT attend the Board regularly as the business agenda dictates.*

**Table 2: HM Courts & Tribunals Service Change and Modernisation Sub Committee**

<b>Members</b>	<b>No. meetings eligible to attend out of a possible 11</b>	<b>No. of eligible meetings attended</b>
Sarah Albon - Director of Strategy and Change (Chair)	11	10
Dileeni Daniel-Selvaratnam - Deputy Director of Strategy and Change	11	8
Steve Gillespie - Finance and Governance Director	11	9
Chris Ball - HR Director	11	9
Paul Shipley - IT Director	11	9
District Judge Michael Walker - Judicial Representative (Courts)	11	10
HHJ Sycamore - Judicial Representative (Tribunals)	11	10
Kevin Sadler - Director of Civil, Family and Tribunals (or representative)	11	11
Guy Tompkins - Delivery Director for the South East <i>(Representing the Field until 31/12/12 and representing the Field and Crime from 01/01/13 to 28/02/13)</i>	10	8

Guy Tompkins – Director of Crime (from 01/03/13)	1	1
Chris Jennings - Deputy Director of Crime (until 31/12/12)	8	6
Lucy Garrod – Delivery Director, Midlands (from 01/03/13)	1	1
Alison White – Non-Executive Member	11	9
Project Office Management representative	11	10

- *Other members of executive management attend as required.*

**Table 3: HM Courts & Tribunals Service Audit Committee**

Members	No. meetings eligible to attend out of a possible 5	No. of eligible meetings attended
Francis Dobbyn – Non-Executive Chair	5	5
Alison White – Non-Executive Member	5	4
District Judge Michael Walker – Judicial Member	5	5
Judge Nick Warren - Judicial Member (from 25/04/12)	4	4
<b>Regular Attendees</b>		
Peter Handcock – Chief Executive	5	4
Steve Gillespie – Finance and Governance Director	5	5
Penny Seera – Head of HM Courts & Tribunals Financial Accounts	5	5
Gary Spooner – Head of Governance and Assurance	4	3
Joyce Drummond-Hill – Head of MoJ Internal Audit and Assurance (until 31/10/12)	4	4
Tim Watkinson - Head of MoJ Internal Audit and Assurance (from 26/11/12)	1	1
National Audit Office	5	5

**Table 4: HM Courts & Tribunals Service Health and Safety Committee**

Members and Attendees	No. meetings eligible to attend out of a possible 3	No. of eligible meetings attended
Steve Gillespie - Finance & Governance Director (Chair)	3	2
Representative North East Region	3	2
Representative North West Region	3	3
Representative Midlands Region	3	3
Representative South East Region	3	3
Representative South West Region	3	3
Representative London Region	3	2
Representative for Wales	3	3
Departmental Trade Union Side representatives	3	3
Health, Safety and Fire Officer	3	2
Representation MoJ Estates	3	2

## Remuneration report

The tables in this Remuneration report have been subject to audit and are referred to in the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

### Board members' Remuneration report

The Remuneration report has been prepared in accordance with the requirements of the Government Financial Reporting Manual (FReM) as issued by HM Treasury.

The Prime Minister sets the remuneration policy of senior civil servants following independent advice from the Senior Salaries Review Body. The salaries of HM Courts & Tribunals Service Board members were set following discussions between the Permanent Secretary of the MoJ and her Director Generals in accordance with the rules of the Civil Service Management Code.

HM Courts & Tribunals Service does not have a Remuneration Committee. The key functions of this Committee are dealt with through the MoJ Workforce Committee.

The following sections provide details of the remuneration and pension interests of HM Courts & Tribunals Service Board members who served during 2012–13.

**Table 1 – Remuneration payments to HM Courts & Tribunals Service Board members during the period 1 April 2012 to 31 March 2013**

Name	Board member role	Salary £'000	Full year salary equivalent £'000	Bonus Payments £'000	Benefits in kind £'000
Robert Ayling	Independent Chairman	15 – 20	15 – 20	Nil	Nil
Peter Handcock	Chief Executive	140 – 145	140 – 145	Nil	Nil
Steve Gillespie	Director, Finance and Governance	80 – 85	80 – 85	5 – 10	Nil
Shaun McNally (Resigned 19 October 2012)	Director, Crime	45 – 50	80 – 85	Nil	Nil
Guy Tompkins (Appointed 1 January 2013)	Director, Crime	20 - 25	80 – 85	Nil	Nil
Kevin Sadler	Director, Civil, Family and Tribunals	95 – 100	95 – 100	Nil	Nil
Alison White	Non-Executive Director	5 – 10	5 – 10	Nil	Nil
Francis Dobbyn	Non-Executive Director	5 – 10	5 – 10	Nil	Nil
Lord Justice Carnwath (Resigned 16 April 2012)	Senior President of Tribunals	Nil <sup>1</sup>	Nil <sup>1</sup>	Nil <sup>1</sup>	Nil <sup>1</sup>
Lord Justice Sullivan (Appointed 25 June 2012)	Senior President of Tribunals	Nil <sup>1</sup>	Nil <sup>1</sup>	Nil <sup>1</sup>	Nil <sup>1</sup>
Lord Justice Goldring (Resigned 31 December 2012)	Senior Presiding Judge	Nil <sup>1</sup>	Nil <sup>1</sup>	Nil <sup>1</sup>	Nil <sup>1</sup>

Lord Justice Gross (Appointed 1 January 2013)	Senior Presiding Judge	Nil <sup>1</sup>	Nil <sup>1</sup>	Nil <sup>1</sup>	Nil <sup>1</sup>
District Judge Michael Walker	Judicial Representative	Nil <sup>1</sup>	Nil <sup>1</sup>	Nil <sup>1</sup>	Nil <sup>1</sup>
Band of Highest Paid Director's Total Remuneration		£140,000 – £145,000			
Median Total Remuneration		£19,746			
Ratio		7.2			

<sup>1</sup> Judicial members are remunerated as judges and received no additional payments as directors of HM Courts & Tribunals Service.

**Table 2 Remuneration payments to HM Courts Service Board members during the period 1 April 2011 to 31 March 2012**

Name	Board member role	Salary £'000	Bonus Payments £'000	Benefits in kind £'000
Robert Ayling	Independent Chairman	15 – 20	Nil	Nil
Peter Handcock	Chief Executive	140 – 145	10 – 15	0.5 – 0.6
Steve Gillespie	Director, Finance and Governance	80 – 85	5 – 10	Nil
Shaun McNally	Director, Crime	80 – 85	5 – 10	Nil
Kevin Sadler	Director, Civil, Family and Tribunals	95 – 100	5 – 10	Nil
Alison White	Non-Executive Director	5 – 10	Nil	Nil
Francis Dobbyn	Non-Executive Director	5 – 10	Nil	Nil
Lord Justice Carnwath	Senior President of Tribunals	Nil <sup>1</sup>	Nil <sup>1</sup>	Nil <sup>1</sup>
Lord Justice Goldring	Senior Presiding Judge	Nil <sup>1</sup>	Nil <sup>1</sup>	Nil <sup>1</sup>
District Judge Michael Walker	Judicial Representative	Nil <sup>1</sup>	Nil <sup>1</sup>	Nil <sup>1</sup>
Band of Highest Paid Director's Total Remuneration		£155,000 - £160,000		
Median Total Remuneration		£19,800		
Ratio		8.0		

<sup>1</sup> Judicial members are remunerated as judges and received no additional payments as directors of HM Courts & Tribunals Service.

### Salary

Salary covers both pensionable and non-pensionable amounts and includes, but may not necessarily be confined to: gross salaries; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. The figures shown do not include amounts that are a reimbursement of expenses directly incurred in the performance of an individual's duties. This report is based on accrued payments made by the department and thus recorded in these accounts.

## Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2012-13 relate to performance in 2011-12 and the comparative bonuses reported for 2011-12 relate to the performance in 2010-11.

## Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument.

## Third party payments

There were no amounts payable to third parties in respect of members of the HM Courts & Tribunals Service Board in 2012-13.

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

## Banded remuneration of the highest-paid director

The banded remuneration of the highest-paid director in HM Courts & Tribunals Service in the financial year 2012–13 was £140–£145k which comprises of salary costs (2011–12: £155–160k which includes salary of £140-£145k and bonus of £10-£15k). This was 7.2 times (2011–12, HM Courts & Tribunals Service: 8.0) the median remuneration of the workforce, which was £19,746 (2011–12, HM Courts & Tribunals Service: £19,800). In 2012-13, no (2011-12, HM Courts & Tribunals Service: nil) employees received remuneration in excess of the highest-paid director.

Total remuneration includes salary, non-consolidated performance-related pay, benefit-in-kind allowances as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

## Service Contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

The officials covered by this report hold appointments which are open-ended, with the exception of Non Executive Directors who are appointed for a term of three years. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission can be found at [www.civilservicecommission.org.uk](http://www.civilservicecommission.org.uk)

Name	Contract start date	Unexpired term	Notice period
Robert Ayling	1 April 2011	3 years	1 month
Peter Handcock	4 January 1971	To retirement	3 months
Steve Gillespie	22 November 1976	To retirement	3 months
Shaun McNally	17 December 1985	To retirement	3 months
Guy Tompkins	7 November 2005	To retirement	3 Months
Kevin Sadler	10 September 1984	To retirement	3 months
Alison White	1 April 2011	2 years	1 month

Francis Dobbyn	1 April 2011	2 years	1 month
Lord Justice Carnwath <sup>1</sup>	N/A	N/A	N/A
Lord Justice Sullivan <sup>1</sup>	N/A	N/A	N/A
Lord Justice Goldring <sup>1</sup>	N/A	N/A	N/A
Lord Justice Gross <sup>1</sup>	N/A	N/A	N/A
District Judge Michael Walker <sup>1</sup>	N/A	N/A	N/A

Notes:

<sup>1</sup> Judicial members do not operate under contracts.

## Pension Benefits

**Table 4 – HM Courts & Tribunals Service Board members' pension benefits and the cash equivalent transfer values (CETV) of those benefits during and at the end of the financial year.**

Name	Accrued pension at pension age as at 31/3/13 and related lump sum £'000	Real increase in pension and related lump sum at pension age £'000	CETV at 31/3/13 £'000	CETV at 31/3/12 £'000	Real increase in CETV £'000
Robert Ayling <b>Independent Chairman</b>	N/A	N/A	N/A	N/A	N/A
Peter Handcock <sup>3</sup> <b>Chief Executive</b>	90 – 95 plus nil lump sum	N/A	1,825	1,825	N/A
Steve Gillespie <b>Director, Finance and Governance</b>	35 – 40 plus 115 – 120 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	745	704	1
Shaun McNally <b>Director, Crime</b>	25 – 30 plus 80 – 85 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	417	398	0.4
Guy Tompkins <b>Director, Crime</b>	25 – 30 plus 85 – 90 lump sum	0 – 2.5 plus 2.5 – 5 lump sum	502	481	17
Kevin Sadler, <b>Director, Civil Family &amp; Tribunals</b>	35 – 40 plus 105 – 110 lump sum	0 – 2.5 plus 0 – 2.5 lump sum	627	588	5
Alison White	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Francis Dobbyn	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Lord Justice Carnwath <b>Senior President of Tribunals</b>	N/A <sup>2</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>
Lord Justice Sullivan <b>Senior President of Tribunals</b>	N/A <sup>2</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>
Lord Justice Goldring <b>Senior Presiding Judge</b>	N/A <sup>2</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>
Lord Justice Gross <b>Senior Presiding Judge</b>					
District Judge Michael Walker <b>Judicial Representative</b>	N/A <sup>2</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>	N/A <sup>2</sup>

Notes:

<sup>1</sup> No pension contributions are made on behalf of HM Courts & Tribunals Service Non-Executive Board members.

<sup>2</sup> Judicial members are remunerated as judges and received no additional pension entitlements as directors of HM Courts & Tribunals Service.

<sup>3</sup> Peter Handcock opted out of the Civil Service pension scheme as at 1/4/12. CETV figures for 2012-13 could not be provided by the pension administrator and therefore figures for 31/3/13 are in line with values previously published.

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (**classic**, **premium** or **classic plus**); or a whole career scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic**, **premium**, **classic plus** and **nuvos** are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for **classic** and 3.5% and 5.9% for **premium**, **classic plus** and **nuvos**. Increases to employee contributions will apply from 1 April 2013. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium**. In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement). No members of the HM Courts & Tribunals Service Board were members of the partnership pension account.

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website <http://www.civilservice.gov.uk/pensions>

### Cash Equivalent Transfer Values

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

membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

**The real increase in the value of the CETV**

This is the element of the increase in accrued pension funded by the Exchequer. It excludes increases due to inflation and contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement). It is worked out using common market valuation factors for the start and end of the period.

A handwritten signature in black ink, appearing to read 'Peter Handcock'.

**Peter Handcock CBE**  
**Chief Executive and Accounting Officer**  
21 June 2013

# Sustainability Report 2012-13

## Introduction

This is the second Sustainability Report for HM Courts & Tribunals Service, prepared in accordance with 2011–2012 guidelines laid down by HM Treasury in ‘Public Sector Annual Reports: Sustainability Reporting’ published at:

[www.hm-treasury.gov.uk/frem\\_sustainability.htm](http://www.hm-treasury.gov.uk/frem_sustainability.htm).

This report matches the scope and details laid out in the Greening Government Commitments (GGC). GGC forms the primary Sustainable Development (SD) efficiency driver across government and carries a series of reduction targets against areas such as carbon from energy, waste and water.

HM Courts & Tribunals Service sustainability focus is on achieving government targets, reducing environmental impact and reducing costs. Further details on GGC can be found at:

<http://sd.defra.gov.uk/gov/green-government/commitments/>

This report covers 629 buildings. Shared occupations are not accounted for due to the limitations of extrapolating reliable sustainability data from service charge data. 110 shared occupations existed during 2012-13. As these are modest in size and, in the case of shared occupations, reported by the major occupier there is little benefit in extrapolating their sustainability data. This is consistent with wider government and with last year’s report. We do not consider that the exclusion of these areas has a material impact on sustainability reporting as a whole.

## Governance, responsibilities and internal assurance

Overall governance and assurance is managed by the MoJ Sustainable Development Team (SDT). Energy efficiency projects are managed through a variety of means including via the MoJ Carbon Reduction Programme which prioritises projects against potential cost and carbon savings. Facilities contractors, acting on behalf of the HM Courts & Tribunals Service, manage day-to-day estate operations and the implementation of utility efficiency programmes.

There are some limitations to the accuracy of our financial and non-financial sustainability data and we continue to improve the quality of our internal controls, for example through internal audit and also via enhanced monitoring devices such as automated meter readers.

## Business Plan commitments

The MoJ Business Plan 2012-15 commitments that relate to sustainability are set out in the Business Plan annexe and are as follows:

- i) Assess and manage environmental, social and economic impacts and opportunities in its policy development and decision making.

MoJ demonstrates a commitment to embedding SD principles into day to day working practices across all departments. To effectively enable this MoJ holds monthly SD Board meetings, chaired by a Board level SD Champion, to steer and agree programmes of work and improve working practices across the different disciplines in the department.

- ii) Implement the department’s plan to deliver on the Greening Government Commitments (GGC), supplying quarterly information and contributing to an annual report on progress.

GGC was launched on 1 April 2011 and requires government departments to take action to significantly reduce environmental impact by 2014–2015 (compared to a 2009–2010 baseline). GGC objectives are a key priority of the MoJ Estates Directorate which are managed, reviewed and monitored by the MoJ SDT.

- iii) Sustainable procurement: Procure from small businesses with the aspiration that 25% of contracts should be awarded to Small and Medium Enterprises (SME).

In line with MoJ Procurement policy to embrace best ethical, environmental, and health and safety practice in meeting business needs, procurement is conducted using a sustainable approach.

Sustainability forms a part of purchasing category strategies. This includes reference to relevant Government Buying Standards and all areas of sustainability which are included in sourcing strategies to identify how requirements are delivered through the procurement.

In response to a broad package of reforms designed to significantly open-up the public sector marketplace to SMEs the MoJ has developed a series of targeted actions aimed to make it easier for SMEs to bid for government contracts. The full MoJ Action Plan including desired outcomes, success factors and contracting opportunities are available on the following government website: <https://www.gov.uk/government/organisations/ministry-of-justice/about/procurement>

In the first quarter of the 2012-13 financial year £485m (34%) of MoJ's procurement spend was with SMEs, which exceeds the government's aspiration of 25%.

### **Social and environmental awareness**

The MoJ SDT has drafted a statement for social and community partnership, which encourages external partnerships to promote learning and skills training in all SD work streams. The MoJ SDT has also implemented initiatives for its lead and central partners to enter into a Memorandum of Understanding, which promotes restorative justice, reducing reoffending and supports further progress towards the government's SD strategy.

### **Carbon Reduction Commitment (CRC)**

CRC is a mandated energy reporting system for medium to large-scale energy consumers. Participants must prepare detailed annual consumption reports and purchase sufficient allowances to cover their respective carbon impact. HM Courts & Tribunals Service forms part of the MoJ's annual CRC submission managed by MoJ SDT. The associated HM Courts & Tribunals Service carbon allowances for 2012-13 are estimated to be £1.17m.

The 2011-12 CRC performance league table recently published by the Department of Energy & Climate Change shows a significant improvement in performance. MoJ are now placed 218th, against the previous ranking of 605th. This improvement was achieved through Carbon Trust accreditation and a reduction in carbon emissions from energy between 2010-11 and 2011-12.

### **Carbon Management Plan (CMP)**

A CMP is a systematic approach to reducing greenhouse gas emissions; integrating technical, financial, corporate governance and communications within an overarching strategy. The HM Courts & Tribunals Service CMP was developed in partnership with the Carbon Trust. The MoJ SDT aim to consolidate all CMP's from across the MoJ into a single, cohesive approach with costed projects to provide an overarching framework to tackle climate change.

Our vision is to:

- be a low carbon business in which carbon management and sustainability are embedded within decision making; and
- engage stakeholders and demonstrate best practice in meeting sustainability targets.

The CMP's and associated statements are kept under review in order to facilitate continued improvement in meeting statutory obligations for climate change adaptation and reporting.

### **Climate Change Adaptation**

Within HM Courts & Tribunals Service the MoJ SDT has implemented a system which prioritises buildings susceptible to the effects of climate change such as temperature increases and a rise in sea levels. The system and associated Statement for Climate Change Adaptation provides the following purpose for both the built and non-built estate:

- Enables the MoJ estate to evaluate risks to its strategy for programme delivery on vulnerable flood plains and evaluate its baseline for future adaptation of targets and actions against climate change;
- Enables the MoJ estate to prioritise its management of high risk sites and where necessary divert and recalculate resources vital to operational delivery;
- Identifies where stakeholders and central partners need to act to facilitate further or additional actions to protect against climate change; and
- Establishes a strategic process by which MoJ can put in place measures necessary to adapt to future climate change.

### **Biodiversity Action Planning**

The MoJ SDT actively engages sites that have either a national designation or a biodiversity significant site. HM Courts & Tribunals Service has one stage one designated site covered by a biodiversity action plan.

People and nature remain a core balance between MoJ and its central partners such as Natural England, the Wildlife Trusts and local communities. The MoJ implements robust Biodiversity Action Plans and local statements for biodiversity across the HM Courts & Tribunals Service estate to ensure a legacy for our future generations.

### **Rural Proofing**

As part of the MoJ estate rationale, new estate management contracts have highlighted where pastoral, countryside and local transport impacts are of prime importance to rural proofing. Transport plans have been an important aspect of our environmental strategy through local planning requirements on new build properties. Establishing public transport routes and negotiating transport timetables is one aspect of how both carbon footprint and social and community plans can be effective in rural proofing across the MoJ estate.

The sighting of new buildings is challenging to our estate, whether it's regarding local planning policy statements or nature and heritage requirements; all of which may impact on both the local leisure and tourism industries. Every aspect including nature, archaeological, tourism, leisure and rural diversification are assessed in the early stages of planning and design for all new builds across the MoJ estate as part of our rural proofing policy.

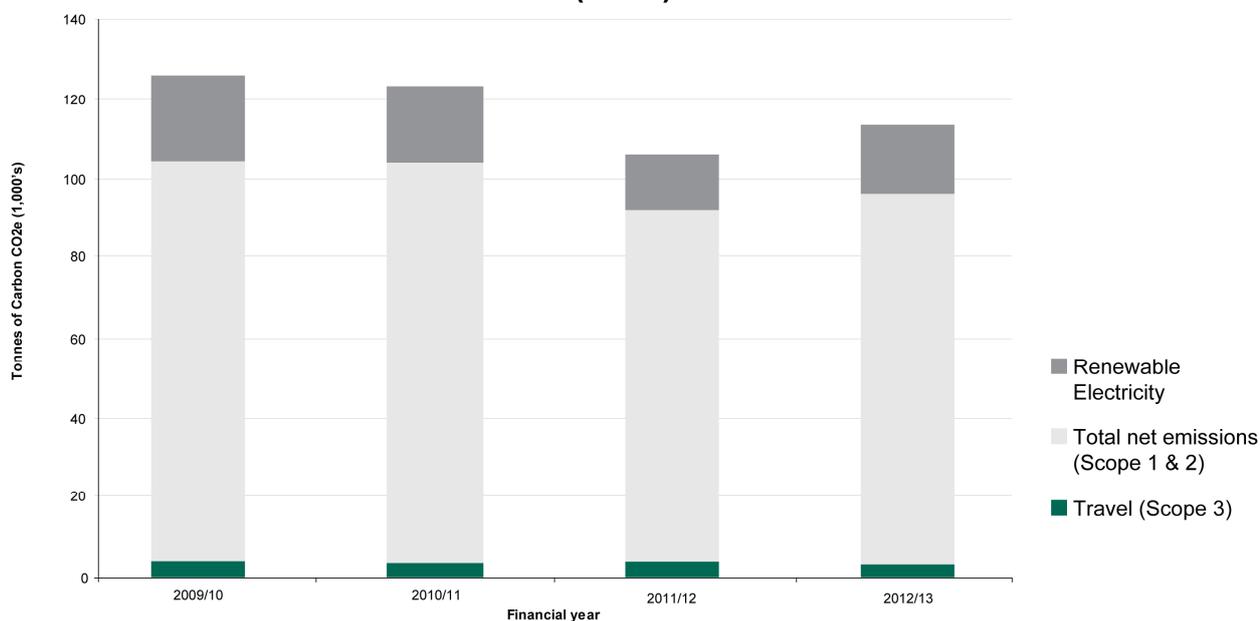
### **Sustainable construction**

All major refurbishments and new builds are required to be Building Research Establishment Environmental Assessment Method (BREEAM) assessed to a standard of 'very good' for refurbishments and excellent for new builds. In addition the department is committed to reducing construction waste to landfill and ensures that all major refurbishment and new build projects have clauses requiring details on waste streams. During 2012-13 one new build and one refurbishment were registered, each meeting the appropriate BREEAM standard.

## Performance

Greenhouse Gas Emissions		2009-10	2010-11	2011-12	2012-13
Non-Financial Indicators (tCO2e)	Total gross emissions (scopes 1 & 2)	125,771	121,987	103,936	112,242
	Electricity: green/renewable	21,737	19,688	14,046	17,524
	Total <b>net</b> emissions (scopes 1 & 2)	104,034	102,299	89,890	94,718
	Travel emissions (scope 3)	3,942	3,394	3,920	3,242
	<b>Total gross GHG emissions (all scopes)</b>	<b>129,713</b>	<b>125,381</b>	<b>107,856</b>	<b>115,484</b>
Non-Financial (mWh)	Electricity: Grid, CHP & non-renewable	119,860	110,065	101,415	101,026
	Electricity: renewable	39,951	36,694	33,805	33,675
	Gas	192,292	193,177	162,768	200,730
	Other energy sources	10,659	8,009	1,944	6,471
	Total energy	362,762	347,945	299,932	341,902
Financial indicators	Expenditure on energy (including CRC)(£)	24,132,000	19,591,000	22,159,000	24,935,000
	Expenditure on official business travel (including GCOF)(£)	8,990,000	8,011,000	11,087,000	12,504,000

### Greenhouse Gas (GHG) Emissions



### Performance commentary (including targets)

The GGC Greenhouse Gas target is to reduce emissions by 25% between 2009-10 and 2014-15. The above figures demonstrate that an 11% reduction has been achieved. This is a lower achievement than last year when 16.9% was reported. The reduction in performance is largely due to climatic conditions encountered during 2012-13 which led to a significant increase in the use of heating fuels. Electricity consumption is lower against the same periods although greater savings may have been expected. In addition, it should be noted that the reporting quality of refrigerant losses (a scope 1 emission) has also improved this year and this area was not covered by reporting during the baseline year (these account for almost 2% of emissions).

Management information relating to the environmental impact and cost of travel has also improved following the introduction of a pan-government travel management system.

**Normalised performance (against FTE):**

2010-11: 20,777 FTE's and 125,381 tCO<sub>2</sub>e = 6.03 tCO<sub>2</sub>e per employee. 2011-12: 19,704 FTE's and 107,856 = 5.47 tCO<sub>2</sub>e per employee. 2012-13: 17,587 FTE & 115,484 tCO<sub>2</sub>e = 6.57 tCO<sub>2</sub>e per employee. The colder climate which featured throughout 2012-13 (in particular during quarters 3 and 4) combined with the significant reduction in staff numbers account for the decline in normalised figures.

**Controllable impacts commentary**

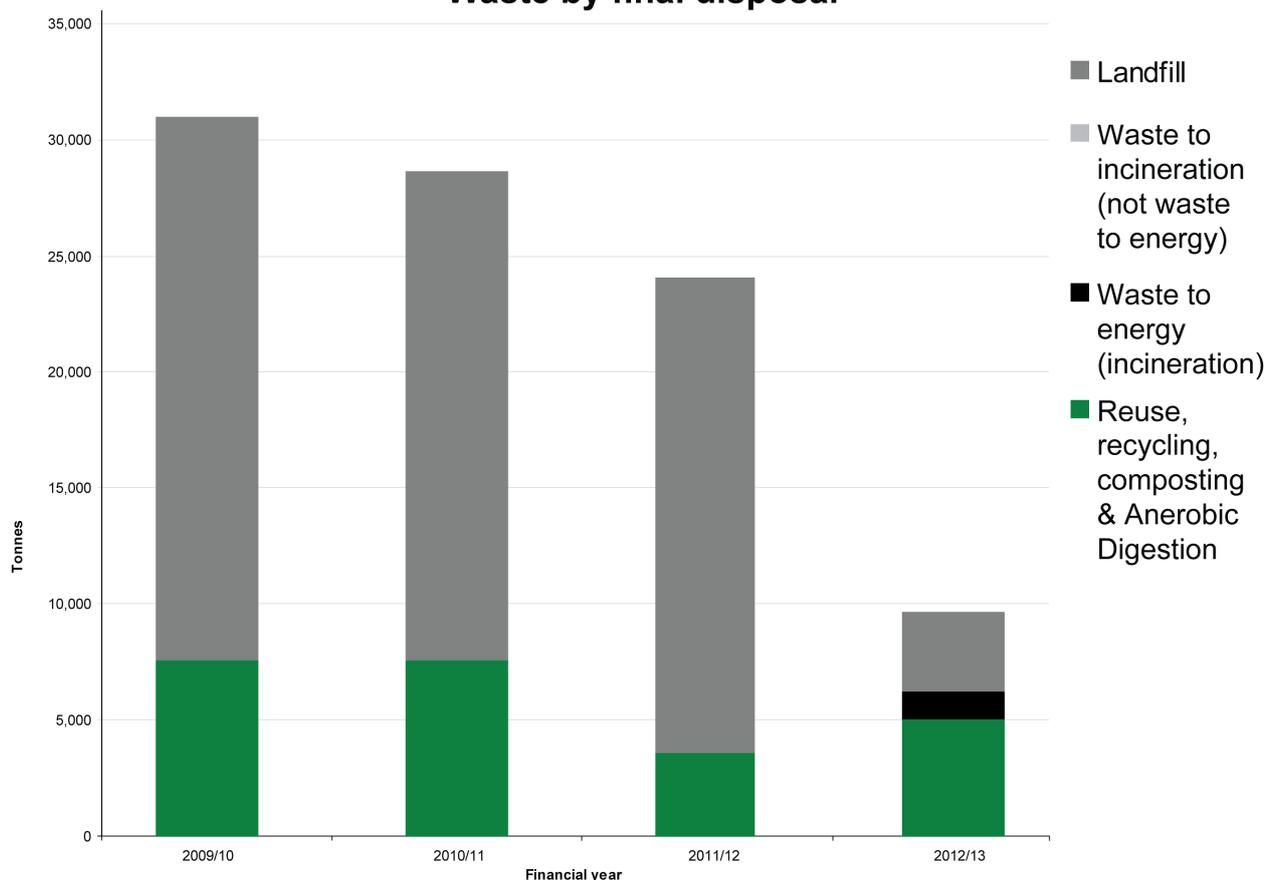
Delivering cost and carbon savings remains a HM Courts & Tribunals Service priority. Sustainable Development and energy reduction targets are managed at site, region and corporate level. Numerous projects such as estate rationalisation, voltage and boiler optimisation, lighting upgrades and awareness campaigns continue to deliver utility savings.

**Overview of influenced impacts**

MoJ Procurement liaise with energy suppliers to improve monitoring and reporting systems. In addition and where possible the MoJ Procurement Team engages with suppliers regarding the government buying standards in relation to efficiency, sustainability and cost reduction.

Waste			2009-10	2010-11	2011-12	2012-13
Non-Financial Indicators	By waste stream (tonnes)	Total hazardous & clinical waste	0	136	0	111
		Total general waste	30,458	28,023	23,680	9,398
		<b>Total waste</b>	<b>30,458</b>	<b>28,159</b>	<b>23,680</b>	<b>9,509</b>
	All waste types by disposal type (tonnes)	Total waste to reuse, recycling, anaerobic digestion, composting	7,430	7,396	3,564	4,979
		Total waste to energy from waste (EfW)	0	0	0	1,136
		Waste to incineration (not EfW)	0	0	0	60
		Total waste to landfill	23,028	20,763	20,116	3,334
Financial Indicators	All types	<b>Total costs (£)</b>	<b>1,644,000</b>	<b>1,518,000</b>	<b>1,955,000</b>	<b>2,332,000</b>

## Waste by final disposal



### Performance commentary (including targets)

HM Courts & Tribunals Service waste management is driven towards achieving the objectives set out by GGC to reduce waste generated by 25% by 2014-15 from a 2009-10 baseline. A new Facilities Management contract began in April 2012 and aligned to this contract was the introduction of an improved management information system and the implementation of waste material recycling strategy. Waste figures prior to 2012-13 were uplifted based on the number of buildings represented by complete data returns – we are now aware that the resultant estimations were overstated. Progression towards the GGC targets continues and the introduction of improved recycling facilities at each site has delivered a significant increase in the amount of waste materials diverted from landfill disposal to other options, such as recycling and composting (52% of waste materials) and ‘energy from waste’ incineration (12%). Of the total waste generated in 2012-13 (9,509 tonnes), 65 per cent was diverted away from landfill disposal. It is anticipated that further improvements will be made as the benefits relating to the above functions are realised in full. Waste data from 16 PFI sites is not contained within the data herewith.

### Controllable impacts commentary

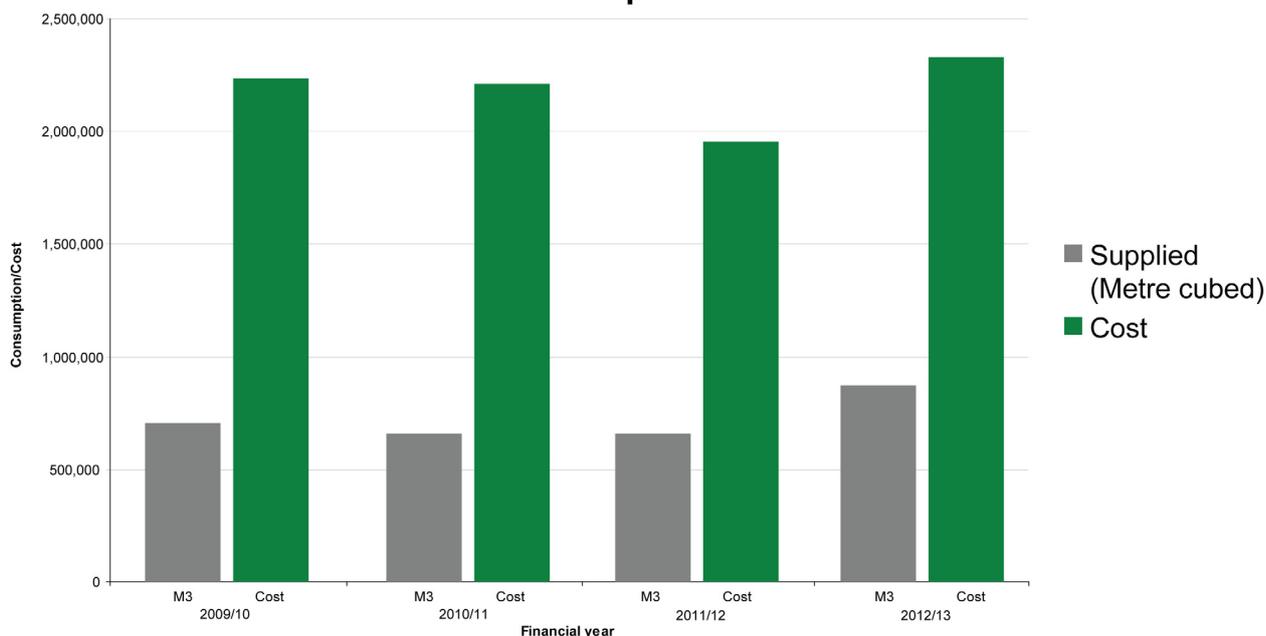
The roll-out of a recycling strategy across the HM Courts & Tribunals Service estate has increased the level of materials diverted away from landfill disposal to other, more preferable options, such as recycling, composting and energy from waste incineration.

### Overview of influenced impacts

The MoJ Procurement Team liaises with suppliers (TFM and PFI) regarding the government buying standards in relation to efficiency, sustainability and cost reduction. HM Courts & Tribunals Service staff are also encouraged to reduce waste through in-house publications such as ‘Sustainability Matters’ and behavioural change initiatives, such as ‘waste awareness week’.

Water		2009-10	2010-11	2011-12	2012-13
Non-Financial Indicators (cubic metres)	<b>Total water consumption</b>	<b>722,887</b>	<b>655,547</b>	<b>655,650</b>	<b>744,676</b>
Financial Indicators	<b>Total water supply costs</b>	<b>£2,251,000</b>	<b>£2,242,000</b>	<b>£1,967,000</b>	<b>£2,357,000</b>

### Water Consumption and Costs



#### Performance commentary (including targets)

There are limitations to the quality of water data within HM Courts & Tribunals Service. A central data set is not yet available so consumption figures are estimated based on a consumption / cost ratio taken from sites with complete data sets. The ratio is then uplifted against the purchase ledger. Cost figures include both waste water and consumed water. HM Courts & Tribunals Service targets are led by the Government's Greening Government Commitments which requires a reduction in water consumed between 2009-10 and 2014-15.

#### Controllable impacts commentary

Delivering cost and water savings remains a HM Courts & Tribunals Service priority. The HM Courts & Tribunals Service strategy centres around monitoring and targeting, awareness campaigns, installation of control devices and automated meter readers, rainwater harvesting and re-cycle initiatives.

#### Overview of influenced impacts

MoJ Procurement liaise with energy suppliers to improve monitoring and reporting systems. In addition and where possible the MoJ procurement team engages with suppliers regarding the Government Buying Standards in relation to efficiency, sustainability and cost reduction. Water reporting systems are due to be upgraded to enhance our monitoring in line with the targets set by government.

Paper	2009-10	2010-11	2011-12	2012-13
Cost excluding VAT	0	0	£2,871,000	£1,710,000

Paper consumption reporting systems have improved and for this reason the 2011-12 figure has been updated since publication last year. The paper supply contract is held within a Government Office Supplies contract (GOSC) which began in October 2011. Under the terms of the contract, management information data is distributed by the Government Procurement Service.

**Performance commentary**

The above figures show a 40% reduction in costs which can be in part be attributed to the estate rationalisation, awareness campaigns and intranet updates.

# The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of HM Courts & Tribunals Service for the year ended 31 March 2013 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

## Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the HM Courts & Tribunals Service's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by HM Courts & Tribunals Service and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Opinion on regularity

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

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of HM Courts & Tribunals Service's affairs as at 31 March 2013 and of the net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

## **Opinion on other matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Chief Executive's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which I report by exception**

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

## **Report**

I have no observations to make on these financial statements.

**Amyas C E Morse**  
**Comptroller and Auditor General**

**21 June 2013**

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

## Statement of Comprehensive Net Expenditure for the Year Ended 31 March 2013

	Notes	2012-13	2011-12
		£000	£000
<b>Administration costs:</b>			
Staff and judiciary costs	3	16,978	18,852
Other administration costs	4.1	62,689	43,119
		79,667	61,971
Income	5	(859)	-
<b>Net administration costs</b>		<b>78,808</b>	<b>61,971</b>
<b>Programme costs:</b>			
Staff and judiciary costs	3	996,439	1,074,243
Other programme costs	4.1	804,172	849,777
Finance costs	4.2	39,856	37,313
		1,840,467	1,961,333
Income	5	(594,592)	(594,623)
<b>Net programme costs</b>		<b>1,245,875</b>	<b>1,366,710</b>
<b>Net operating cost</b>		<b>1,324,683</b>	<b>1,428,681</b>

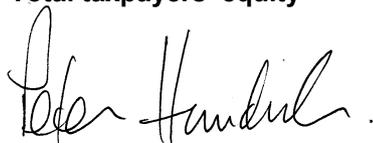
### Other Comprehensive Expenditure

	Notes	2012-13	2011-12
		£000	£000
Net operating cost		1,324,683	1,428,681
Net (gain) on revaluation of property, equipment and investment property		(95,868)	(30,653)
Net (gain) on revaluation of intangible assets		-	(65)
Actuarial (gain) on pension scheme liabilities	15.3	(233)	(19)
<b>Total comprehensive expenditure</b>		<b>1,228,582</b>	<b>1,397,944</b>

The notes on pages 61 to 116 form part of these accounts.

## Statement of Financial Position as at 31 March 2013

	Notes	31 March 2013	31 March 2012
		£000	£000
<b>Non-current assets</b>			
Property and equipment	6	2,826,632	2,787,832
Investment property	7	-	950
Intangible assets	9	53,599	58,465
Trade and other receivables	11	219	259
<b>Total non-current assets</b>		<b>2,880,450</b>	<b>2,847,506</b>
<b>Current assets</b>			
Assets held for sale	8	18,349	5,405
Trade and other receivables	11	114,060	101,431
Cash and cash equivalents	12	106	11,995
<b>Total current assets</b>		<b>132,515</b>	<b>118,831</b>
<b>Total assets</b>		<b>3,012,965</b>	<b>2,966,337</b>
<b>Current liabilities</b>			
Cash and cash equivalents	12	(57,500)	-
Trade and other payables	13	(245,601)	(345,724)
Provisions for liabilities and charges	15	(11,347)	(25,109)
<b>Total current liabilities</b>		<b>(314,448)</b>	<b>(370,833)</b>
<b>Total assets less current liabilities</b>		<b>2,698,517</b>	<b>2,595,504</b>
<b>Non-current liabilities</b>			
Trade and other payables	13	(461,252)	(397,796)
Provisions for liabilities and charges	15	(116,343)	(277,218)
<b>Total non-current liabilities</b>		<b>(577,595)</b>	<b>(675,014)</b>
<b>Total assets less total liabilities</b>		<b>2,120,922</b>	<b>1,920,490</b>
<b>Taxpayers' equity</b>			
General fund		1,805,047	1,667,765
Revaluation reserves		315,875	252,725
<b>Total taxpayers' equity</b>		<b>2,120,922</b>	<b>1,920,490</b>



**Peter Handcock CBE**  
**Chief Executive and Accounting Officer**  
**21 June 2013**

The notes on pages 61 to 116 form part of these accounts.

## Statement of Changes in Taxpayers' Equity for the Year Ended 31 March 2013

	Notes	General fund	Revaluation reserves	Total
		£000	£000	£000
<b>Balance as at 31 March 2011</b>		<b>1,887,645</b>	<b>247,857</b>	<b>2,135,502</b>
Transfer from other departments		(1,838)	-	(1,838)
Funding from the MoJ		900,700	-	900,700
Net operating cost		(1,428,681)	-	(1,428,681)
Notional costs:				
Consolidated fund judicial salaries	14	141,962	-	141,962
External auditors' remuneration	14	459	-	459
Departmental recharge	14	139,716	-	139,716
Notional rent	14	1,933	-	1,933
Revaluation of property, equipment and investment property		-	30,653	30,653
Net gain on revaluation of intangible assets		-	65	65
Actuarial gain on pension scheme liabilities	15.3	19	-	19
Reclassification from revaluation reserves		25,850	(25,850)	-
<b>Balance as at 31 March 2012</b>		<b>1,667,765</b>	<b>252,725</b>	<b>1,920,490</b>
Transfer from other departments		-	-	-
Funding from the MoJ		1,108,320	-	1,108,320
Net operating cost		(1,324,683)	-	(1,324,683)
Adjustments in respect of non current assets:				
Transfers in from other public bodies	6	3,402	-	3,402
Notional costs:				
Consolidated fund judicial salaries	14	141,190	-	141,190
External auditors' remuneration	14	340	-	340
Departmental recharge	14	175,762	-	175,762
Revaluation of property, equipment and investment property		-	95,868	95,868
Net gain on revaluation of intangible assets		-	-	-
Actuarial gain on pension scheme liabilities	15.3	233	-	233
Reclassification from revaluation reserves		32,718	(32,718)	-
<b>Balance as at 31 March 2013</b>		<b>1,805,047</b>	<b>315,875</b>	<b>2,120,922</b>

## Statement of Cash Flows for the Year ended 31 March 2013

	Notes	2012-13	2011-12
		£000	£000
<b>Cash flows from operating activities</b>			
Net operating costs		(1,324,683)	(1,428,681)
Adjustments for notional and non-cash transactions	14	464,887	478,240
Finance costs	4.2	39,856	37,313
(Increase)/decrease in trade and other receivables		(12,532)	153,133
(Decrease) in trade and other payables		(120,187)	(54,972)
Utilisation of provisions	15	(145,207)	(52,935)
<b>Net cash outflow from operating activities</b>		<b>(1,097,866)</b>	<b>(867,902)</b>
<b>Cash flows from investing activities</b>			
Purchases of property and equipment	14.1	(91,974)	(95,994)
Proceeds from disposal of property and equipment and assets held for sale		35,733	54,930
<b>Net cash outflow from investing activities</b>		<b>(56,241)</b>	<b>(41,064)</b>
<b>Cash flows from financing activities</b>			
Funding from the MoJ		1,108,320	900,700
Capital element of PFI contracts		(8,925)	(8,926)
Capital element of finance leases		(287)	(85)
Repayments of Local Authority Loans		(2,916)	(3,121)
Interest paid	4.2	(11,474)	(12,218)
<b>Net cash inflow from financing activities</b>		<b>1,084,718</b>	<b>876,350</b>
<b>(Decrease) in third party balances</b>		<b>-</b>	<b>(16,365)</b>
<b>Net decrease in cash and cash equivalents in the period</b>	12	<b>(69,389)</b>	<b>(48,981)</b>
<b>Cash and cash equivalents as at the beginning of the period</b>	12	<b>11,995</b>	<b>60,976</b>
<b>Cash and cash equivalents as at the end of the period</b>	12	<b>(57,394)</b>	<b>11,995</b>

The notes on pages 61 to 116 form part of these accounts.

# Notes to the Accounts for the Year Ended 31 March 2013

## 1 Statement of accounting policies

These accounts have been prepared in accordance with the 2012-13 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as interpreted for the public sector.

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of HM Courts & Tribunals Service for the purpose of giving a true and fair view has been selected. The particular policies adopted by HM Courts & Tribunals Service are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

### 1.1 Accounting convention

HM Courts & Tribunals Service accounts have been prepared under the historical cost convention modified to account for the revaluation of property and equipment, investment property and intangible assets, inventories and certain financial assets and liabilities.

The preparation of the accounts in conformity with IFRS requires the use of certain critical accounting estimates (see note 1.29). It also requires management to exercise its judgement in the process of applying the accounting policies.

### 1.2 HM Courts & Tribunals Service Administration and Programme

The Statement of Comprehensive Net Expenditure is analysed between Administration and Programme income and expenditure. The classification of income and expenditure as Administration and Programme follows the definition of administration costs as set out in the Spending Review by HM Treasury. Administration expenditure reflects the costs of running HM Courts & Tribunals Service while programme costs relate to service delivery activities.

### 1.3 Changes in accounting policy, and disclosures

#### a) Changes in accounting policy

HM Courts & Tribunals Service did not have any changes in accounting policies during the year.

#### b) New and amended standards adopted

Amendment to IFRS 7 Financial Instruments: Disclosures (effective for government departments from 1 April 2012), requires additional disclosure for the transfer of financial assets outside of the legal body. HM Courts & Tribunals Service has applied the requirements of IFRS 7 in full to these Accounts however there were no transfers of financial assets outside HM Courts & Tribunal Service in 2012-13.

There are no other IFRS' or International Financial Reporting Interpretations Committee (IFRIC) interpretations effective for government agencies for the first time for the financial year beginning 1 April 2012.

#### c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2012 and not early adopted

The following new standards, interpretations and amendments, which are not yet effective, may have an effect on HM Courts & Tribunals Service future Accounts.

IAS 1 'Presentation of Financial Statements – Other Comprehensive Income' (effective for accounting periods beginning on or after 1 July 2012), retains the option to present other comprehensive expenditure on a separate statement from net operating cost items, and to reclassify some other comprehensive expenditure items to net operating cost. The FReM's adaptation of IAS 1 amendment for public sector application is effective from 1 April 2013.

IAS 19 (revised 2011) 'Employee Benefits' (effective for accounting periods beginning on or after 1 January 2013) was issued in June 2011. The impact of this revision includes changes to disclosure and presentation requirements for defined benefit pension schemes, removal of the options to defer recognition of pension scheme gains and losses, and modification to the accounting for termination benefits.

IFRS 9 'Financial Instruments' (effective for accounting periods beginning on or after 1 January 2015) addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into two measurement categories; those measured at fair value and those measured at amortised cost. The determination is made at initial recognition and depends on the contractual cash flow characteristics of the instrument and the method in which an entity manages its financial instruments.

IFRS 13 'Fair Value Measurement' (effective for accounting periods beginning on or after 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS'. The requirements, which are largely aligned between IFRS' and UK GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS' or UK GAAP. This amendment is subject to further review by HM Treasury and other relevant authorities.

The above standards to be adopted are not expected to have a material impact on the HM Courts & Tribunals Service accounts.

#### **1.4 Machinery of Government changes and restatement of comparatives**

Machinery of Government changes, which involve the transfer of functions or responsibilities between two or more parts of the public sector/government departments, are required to be accounted for using merger accounting principles where there is a transfer of function between departmental groups within central government in accordance with the FReM. Where material the prior year comparatives are restated as appropriate, so that it appears that the entity has always existed in its present form. All other public sector business combinations are accounted for using absorption accounting.

There have been no Machinery of Government changes in HM Courts & Tribunals Service in 2012-13

#### **1.5 Income**

Operating income is income that relates directly to the operating activities of HM Courts & Tribunals Service and is therefore recognised as revenue in the Statement of Comprehensive Net Expenditure.

It principally comprises charges for services provided on a full cost basis to external customers and the recovery of costs from other government departments. Other operating income includes rents, receivables and miscellaneous receipts (for example sale of publications). Income is stated net of VAT.

Funding from the MoJ is credited directly to the General Fund in line with FReM requirements.

## 1.6 Fee revenue

Fee revenue consists of amounts for services rendered to civil, family court and tribunals users. The elements where payment has been received, but relate to work yet to be completed, are held in the Statement of Financial Position as deferred revenue. The deferred revenue is subsequently recognised as revenue upon completion of the service.

The point at which the revenue is recognised depends upon the nature and circumstances of the individual service which is provided. For most revenue streams, the service provided by HM Courts & Tribunals Service is the initiation of the application, which occurs immediately on receipt of the application. The accompanying application fee is therefore recognised as revenue immediately on receipt.

For certain fee revenue streams, such as warrants and assessments, an estimate is made of the time period in which the application is made (typically one week) and the deferred element is thus determined.

For other fee revenue streams, such as petitions, appeals and probate, specific records are maintained in respect of the outstanding services and the deferred revenue is directly determined based upon these.

Fee revenue is stated net of fee remissions and exemptions (REMEX). The REMEX scheme is prescribed in the Fee Orders approved by Parliament and remitted fees are not collected by HM Courts & Tribunals Service. The financial objective of full cost recovery net of REMEX is agreed with HM Treasury to ensure that individuals are not denied access to justice through inability to afford the prescribed fees.

## 1.7 HM Courts & Tribunals Service Trust Statement

Since 2010-11 HM Treasury has required government departments that collect material revenues from taxes, duties, fines and penalties, on behalf of the Consolidated Fund, to prepare a stand-alone Trust Statement that specifically reports on the financial activities relating to such collections. Transactions relating to fines and penalties are reported only in the Trust Statement and do not feature in these accounts.

HM Courts & Tribunals Service, as the Executive Agency of the MoJ responsible for collecting fines and financial penalties imposed by the criminal justice system, prepares a stand-alone Trust Statement that should be read in conjunction with the HM Courts & Tribunals Service Annual Report and Accounts.

The Trust Statement accounts for fines and penalties imposed by the criminal justice system as revenue ultimately payable to the Consolidated Fund, on a gross basis. It also accounts for the cash and balances payable to the Consolidated Fund and third parties in relation to the collection of the fines and penalties amounts.

## 1.8 Non-cash charges

Non-cash charges in the Statement of Comprehensive Net Expenditure include external auditors' remuneration, which represents the National Audit Office's cost for the audit of HM Courts & Tribunals Service's accounts, and departmental overhead recharges which are recharged to the Agency from the MoJ.

Other non-cash charges include salary and social security costs of senior judges who, being independent of HM Courts & Tribunals Service, are funded from the Consolidated Fund. Senior judges also receive long service payments under an agreement with the MoJ. There is a provision for these payments within the MoJ resource accounts.

## 1.9 Operating segments

Operating segments are analysed in accordance with IFRS 8 'Operating Segments' along with the lines of information presented to the Chief Operating Decision Maker (CODM) who for the purpose of these accounts is determined to be the Chief Executive. The CODM is responsible for allocating resources and assessing performance of the operating segments.

## 1.10 Property and equipment recognition

Items of property and equipment, including subsequent expenditure on existing assets, are initially recognised at cost when it is probable that future economic benefits or service potential associated with the asset will flow to HM Courts & Tribunals Service and the cost of the asset can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Net Expenditure during the financial period in which they are incurred.

### Capitalisation threshold – individual assets

The threshold for individual assets is £10,000 (including irrecoverable VAT).

### Capitalisation threshold – grouped assets

Where a significant purchase of individual assets which are individually beneath the capitalisation threshold arises in connection with a single project, they are treated as a grouped asset.

Grouped assets typically comprise:

- An integrated system of diverse equipment designed to deliver a specific solution, for example, an Information Technology (IT) equipment refresh project;
- A materially significant acquisition of furniture or IT at a single site; or
- IT and furniture refresh programmes.

HM Courts & Tribunals Service threshold for grouped assets is £1m (including irrecoverable VAT). Where an item costs less than the prescribed limit, but forms an integral part of a package whose total value is greater than the capitalisation level, then the item is treated as a tangible fixed asset.

### Valuation of land and buildings (including dwellings)

Subsequent to initial recognition, land and buildings (including dwellings) comprise mainly court facilities. Land and buildings are included at fair value, as interpreted by the FReM, on the basis of professional valuations which are conducted for each property at least once every five years.

Professional valuations are primarily undertaken by the Valuation Office Agency (VOA) using the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Manual, known as the 'Red Book'. In between professional valuations, carrying values are adjusted by the application of indices or through desktop valuations.

Criminal courts are mostly classified as specialised buildings which cannot be sold on the open market. Specialised properties are valued on depreciated replacement cost (DRC) to a modern equivalent basis in accordance with the Red Book, taking into account the functional obsolescence of the property. The Instant Building approach has been adopted, as required by the FReM. Therefore, no building periods or consequential finance costs have been reflected in the costs applied when the DRC approach is used. Ingoing works are fair valued using the Building Cost Information Service Tender Price Index as supplied by the RICS.

For other property assets in continuing use, fair value is interpreted as market value for existing use. In the Red Book this is defined as 'market value on the assumption that property is sold as part of the continuing enterprise in occupation'. The 'value in use' of a non-cash-generating

asset is the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential.

#### **Valuation of assets held for sale**

Non-current assets are classified as 'held for sale' when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. Assets held for sale are stated at the lower of their carrying amount immediately prior to classification as 'held for sale' and their 'fair value less costs to sell'. Any subsequent impairment or reversal of impairment is recognised in the Statement of Comprehensive Net Expenditure. Assets classified as held for sale are not depreciated.

#### **Valuation of other assets**

Other assets comprise information technology, equipment, furniture, fixtures and fittings. These assets are included at cost upon purchase and are restated at each reporting date using the Producer Price Index produced by the Office of National Statistics.

Other assets revaluations and subsequent costs are accounted for in a consistent manner to land and buildings above.

#### **Assets under construction**

Assets under construction are valued at historical cost within property, plant and equipment and are not depreciated. Relevant expenditure is capitalised where it is directly attributable to bringing an asset into working condition, such as external consultant costs, relevant employee costs and an appropriate portion of relevant overheads.

An asset ceases to be classified as an asset under construction when it is ready for use. Its carrying value is then removed from assets under construction and transferred to the respective asset category. Depreciation is then charged on the asset in accordance with the depreciation accounting policy.

#### **Revaluation**

When an asset's carrying value increases as a result of a revaluation, any revaluation surplus is credited to other comprehensive expenditure and accumulated directly in taxpayers' equity under the heading of Revaluation Reserve. An exception is any gain on revaluation that reverses a revaluation decrease on the same asset previously recognised as an expense. Such gains are first credited within net operating cost in the Statement of Comprehensive Net Expenditure to the extent the gain reverses a loss previously recognised within net operating cost in the Statement of Net Comprehensive Expenditure.

When an asset's carrying amount decreases as a result of a permanent diminution in the value of the asset due to a clear consumption of economic benefit or service potential, the decrease is charged directly to 'Other Operating Costs' in the Statement of Net Comprehensive Expenditure, with any remaining Revaluation Reserves balance released to the General Fund.

When an asset's carrying amount decreases (other than as a result of a permanent diminution), the decrease is recognised in the Revaluation Reserve to the extent a balance exists in respect of that asset. Any further decrease in excess of revaluation surpluses is charged to 'Other Operating Costs' in the Statement of Comprehensive Net Expenditure.

Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the Statement of Comprehensive Net Expenditure and depreciation based on the asset's original cost is transferred from the Revaluation Reserve to the General Fund.

## Depreciation

Depreciation is charged on a straight-line basis at rates calculated to write-off the value of assets less estimated residual value evenly over their estimated useful lives or, for leased assets, over the life of the lease or the period implicit in the repayment schedule. The useful lives of assets or asset categories are reviewed annually and any changes are discussed with the relevant authorities to ensure that budgeting implications have been properly considered. Where a change in asset life is agreed, the asset is depreciated on a straight-line basis over its remaining assessed life. Depreciation commences in the month following the acquisition of a non-current asset for land, buildings and dwellings and in-month for all other non-current assets.

If an item of property, plant and equipment comprises two or more significant components, with substantially different useful lives, then each component is treated separately for depreciation purposes and depreciated over its individual useful life.

Estimated useful asset lives are within the following ranges:

<b>Freehold land</b>	Not depreciated
<b>Leasehold land</b>	Shorter of remaining lease period
<b>Freehold buildings (including dwellings)</b>	Shorter of remaining life or 60 years
<b>Leasehold buildings (including dwellings)</b>	Shortest of remaining life, remaining lease period or 60 years
<b>Information technology</b>	Shorter of remaining lease period or 7 years
<b>Plant and equipment</b>	Shorter of remaining lease period or 3 to 5 years
<b>Furniture and fittings</b>	Shorter of remaining lease period or 10 to 20 years
<b>Assets held for sale</b>	Not depreciated
<b>Investment properties</b>	Not depreciated
<b>Assets under construction</b>	Not depreciated

## Disposals

Gains and losses on disposal of non-current assets are determined by comparing the proceeds with the carrying amount and are recognised within 'Other Operating Costs' in the Statement of Comprehensive Net Expenditure (SoCNE).

When revalued assets are sold, the amounts included in Revaluation Reserve are transferred to the General Fund.

## Donated assets

Donated assets are capitalised at fair value on receipt, and this value is credited to the SoCNE. Non-current donated assets are revalued, depreciated and subject to impairment in the same manner as other non-current assets.

### 1.11 Investment property

Investment property comprises freehold land and buildings not principally occupied by HM Courts & Tribunals Service. Investment property is carried at fair value, which is based on active market prices adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. The Valuation Office Agency (VOA), carries out valuations in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual, known as the "Red Book" as at 31 March each year. Changes in fair values are recorded in the Statement of Comprehensive Net Expenditure.

When investment property is leased out under an operating lease, the leased asset remains within 'Investment Property' in the Statement of Financial Position. The lease revenue is recognised over the term of the lease on a straight-line basis.

## 1.12 Intangible assets

HM Courts & Tribunals Service's intangibles comprise internally developed software for internal use (including such assets under construction) and purchased software licences.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by HM Courts & Tribunals Service, such as external consultant costs, software development employee costs and an appropriate portion of relevant overheads, are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- HM Courts & Tribunals Service intends to complete the software product and use it;
- there is an ability to use the software product;
- the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Purchased software licenses are recognised as assets when it is probable that future service potential will flow to HM Courts & Tribunals Service and the cost of the license can be measured reliably. Such licenses are initially measured at cost.

Subsequent to initial recognition, intangible assets are included in the accounts at fair value. As no active market exists for the intangible assets of HM Courts & Tribunals Service, fair value is assessed as replacement cost less any accumulated amortisation and impairment losses (i.e. depreciated replacement cost).

Intangible assets in service are re-measured at the end of each reporting period using the Producer Price Index issued by the Office of National Statistics (ONS).

Intangible assets are amortised using the straight-line method over their expected useful life. The useful lives of internally developed software range from three to seven years. Purchased software licences are amortised over the licence period. Intangible assets in development are not amortised until they are ready for use, at which point amortisation is then charged in accordance with the stated accounting policy.

### Capitalisation thresholds – software projects

The capitalisation threshold for software projects is £1m (including irrecoverable VAT).

## 1.13 Impairment

An impairment reflects a permanent diminution in the value of an asset as a result of a clear consumption of economic benefits or service potential. At each reporting date, HM Courts & Tribunals Service assesses all assets for indications of impairment. If any such indication exists, the assets in question are tested for impairment by comparing the carrying value of those assets

with their recoverable amounts. Where the recoverable amount of an asset is less than its carrying value, the carrying value of the asset is reduced to its recoverable amount.

The recoverable amount of an asset is the higher of its "fair value less costs to sell" and "value in use". For the purposes of the public sector, the FReM defines the "value in use" of a non-cash-generating asset as the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential.

Any impairment loss is charged directly to 'Other Operating Costs' in the Statement of Comprehensive Net Expenditure. If the impaired asset has previously been re-valued, any balance on the Revaluation Reserve (up to the level of the impairment loss) is transferred to the General Fund.

At each reporting date HM Courts & Tribunals Service also assesses whether there is any indication that an impairment loss recognised in a previous period either no longer exists or has decreased. If any such indication exists, the recoverable amounts of the assets in question are reassessed. The reversal of an impairment loss is then recognised in the Statement of Comprehensive Net Expenditure, if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment test was carried out. The amount of any reversal is restricted to increasing the carrying value of the relevant assets to the carrying value that would have been recognised had the original impairment not occurred (that is, after taking account of normal depreciation that would have been charged had no impairment occurred).

## **1.14 Leases**

Leases are classified as either finance leases or operating leases based on the substance of the arrangement. The lease of land and buildings is split at inception of the lease into a separate lease of land and a lease of buildings.

### **Finance leases**

Leases of property and equipment, where HM Courts & Tribunals Service has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased property or equipment and the present value of the minimum lease payments. Up-front payments for a leasehold interest classified as a finance lease are capitalised as part of the asset.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in either short term or long-term payables, depending on the dates HM Courts & Tribunals Service is contractually obliged to make rental payments. The interest element is charged to the Statement of Comprehensive Net Expenditure over the lease period at a constant periodic rate of interest on the remaining balance of the liability for each period.

The property and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

### **Operating leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Net Expenditure on a straight-line basis over the period of the lease. Any up-front payments for a leasehold interest classified as an operating lease are recognised as a lease prepayment in the Statement of Financial Position and amortised over the lease term.

Lease revenue from operating leases where HM Courts & Tribunals Service is the lessor is recognised in revenue on a straight-line basis over the lease term.

### **Operating lease incentives**

HM Courts & Tribunals Service treats lease incentives (such as rent-free periods or contributions by the lessor to the lessee's relocation costs) as an integral part of the consideration for the use of the leased asset. The incentives are accounted for as an integral part of the net consideration agreed for the use of the leased asset and are spread appropriately over the lease term.

### **Arrangements containing a lease**

In determining whether HM Courts & Tribunals Service is party to a lease, contracts that do not take the legal form of a lease but which may contain an embedded lease, for example outsourcing arrangements and take-or-pay contracts, are assessed to determine whether the contract contains a lease. The contract is accounted for as a lease if the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

## **1.15 Service Concession Arrangements**

Service Concession Arrangements, including Private Finance Initiative (PFI) arrangements, are arrangements whereby private sector operators are contractually obliged to provide services to the public in relation to certain infrastructure assets. HM Courts & Tribunals Service defines such arrangements as Service Concession Arrangements if they meet the following conditions (as stipulated in IFRIC 12 'Service Concession Arrangements', as adapted for the public sector context by the FReM):

- HM Courts & Tribunals Service controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and
- HM Courts & Tribunals Service controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the term of the arrangement.

Where these conditions are satisfied, the future payment stream is assessed to separately identify the infrastructure interest and service components.

HM Courts & Tribunals Service recognises the infrastructure asset at fair value (or the present value of the future minimum infrastructure payments, if lower) as a non-current asset in the Statement of Financial Position with a corresponding liability for future payments under the agreement.

The interest element of the agreement is charged to the Statement of Comprehensive Net Expenditure over the contract period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The service element of the agreement is charged to the Statement of Comprehensive Net Expenditure in the period in which the services are rendered by the operator.

## **1.16 Cash and cash equivalents**

Cash and cash equivalents recorded in the Statement of Financial Position and Statement of Cash Flow include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

## 1.17 Third party cash balances

HM Courts & Tribunals Service holds a number of different cash balances on behalf of third parties. These consist of bail monies which are received and held while a criminal case progresses and have not been recognised in the accounts in accordance with FReM requirements. These balances do not include amounts held following the collection of fines and penalties on behalf of other bodies; these amounts are reported in a separate Trust Statement (see note 1.7).

Third party cash balances are not included in the Statement of Financial Position in line with FReM requirements and a disclosure of these balances is made in note 22 to the accounts.

## 1.18 Financial instruments

### *Recognition*

Financial assets and financial liabilities which arise from contracts for the purchase and sale of non-financial items (such as goods or services), which are entered into in accordance with HM Courts & Tribunals Service's normal purchase, sale or usage requirement, are recognised when, and to the extent which, performance occurs. All other financial assets and liabilities are recognised when HM Courts & Tribunals Service becomes party to the contractual provisions to receive or make cash payments.

### *De-recognition*

A financial asset is considered for de-recognition when the contractual rights to the cash flows from the financial asset expire, or HM Courts & Tribunals Service has either transferred the contractual right to receive the cash flows from the asset, or has assumed an obligation to pay those cash flows to one or more recipients, subject to certain criteria. HM Courts & Tribunals Service de-recognises a transferred financial asset if it transfers substantially all the risks and rewards of ownership.

### *Trade and other receivables*

Trade and other receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. HM Courts & Tribunals Service's trade and other receivables comprise trade and other debtors, deposits and advances, accrued revenue, intra-departmental debtors and inter-departmental debtors. Trade and other receivables are initially recognised at fair value and are measured at amortised cost using the effective interest rate method. The effective interest rate is a method of calculating the amortised cost of a financial asset and of allocating the interest revenue or expense over the relevant period using the estimated future cash flows.

### *Impairment of financial assets*

At the end of each reporting period, HM Courts & Tribunals Service assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is:

- Objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the end of the reporting period ('a loss event');
- The loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets; and
- A reliable estimate of the amount can be made.

Financial assets are recorded in the Statement of Financial Position net of any impairments.

### *Financial liabilities*

All financial liabilities are recognised initially at fair value, net of any transaction costs incurred, and then measured at amortised cost using the effective interest rate method. Where the effect is material, the estimated cash flows of financial liabilities are discounted.

They are included in current liabilities except for the amounts payable more than twelve months after the end of the reporting period, which are classified as non-current liabilities. Interest on financial liabilities carried at amortised cost is calculated using the effective interest rate method and is charged to the Statement of Comprehensive Net Expenditure.

### **1.19 Value Added Tax (VAT)**

Most of the activities of HM Courts & Tribunals Service are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capital purchase cost of property and equipment and intangibles. Where output tax is charged or input tax is recoverable the amounts are stated net of VAT.

### **1.20 Provisions**

Provisions represent liabilities of uncertain timing or amount.

Provisions are recognised when HM Courts & Tribunals Service has:

- A present legal or constructive obligation as a result of past events;
- It is probable that an outflow of resources will be required to settle the obligation; and
- The amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. Where the effect is material, the estimated cash flows are discounted. The increase in the provision due to passage of time is recognised as interest expense.

### **1.21 Contingent liabilities**

In addition to contingent liabilities disclosed in accordance with IAS 37 'Provisions, contingent liabilities, and contingent assets', HM Courts & Tribunals Service discloses, for Parliamentary reporting and accountability purposes, certain statutory and non-statutory contingent liabilities where the likelihood of transfer of economic benefit is remote as required by the Managing Public Money guidelines.

Where the time value of money is material, contingent liabilities that are required to be disclosed under IAS 37 are measured at discounted amounts. Contingent liabilities that are not required to be reported under IAS 37 are stated at the amount reported to Parliament.

### **1.22 Contingent assets**

Contingent assets are disclosed where a possible asset arises from a past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within HM Courts & Tribunals Service's control.

### **1.23 General Fund**

Funding received from the government is credited to the General Fund within the Statement of Taxpayers' Equity upon receipt of the funds.

## 1.24 Foreign exchange

Transactions that are denominated in a foreign currency are translated into sterling, which is the functional currency, at the exchange rate specified in the contract. Transactions are translated into sterling at the exchange rate ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for the period is used. Monetary assets and liabilities denominated in a foreign currency at the Statement of Financial Position date are translated at the rates at that date. These translation differences are dealt with in the Statement of Comprehensive Net Expenditure. HM Courts & Tribunals Service has not engaged in hedge accounting.

## 1.25 Employee benefits

Short term benefits such as salaries and wages or post-employment benefits resulting from employment and long-term benefits such as long service awards, including termination benefits (for example early departure costs) and pension benefits are recognised at the cost of providing the benefit in the period in which it is earned by the employee, rather than when it is paid or becomes payable.

IAS 19 ('Employee Benefits') requires HM Courts & Tribunals Service to recognise the expected cost of the annual leave entitlement of its employees that is accrued at the end of each financial year. HM Courts & Tribunals Service estimates this accrual by calculating the average value of outstanding leave across each payband which is then used to provide an extrapolated total.

## 1.26 Pensions

Most past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The defined benefit schemes are unfunded and are non-contributory except in respect of dependants' benefits. The agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the agency recognises the contributions payable for the year.

Members of the judiciary are covered by the Judicial Pension Scheme (JPS). Further details of this scheme can be found in note 3.2.2.

HM Courts & Tribunals Service has recognised a provision for the pension transfer deficit arising from the transfer of employees from Magistrates' Courts Committees to the agency in 2005, since this represents an additional liability calculated under a separate agreement with the PCSPS. This provision is formally valued on an annual basis by the Government Actuary's Department (GAD) and the amount recorded in the Statement of Financial Position reflects this valuation.

## 1.27 Early departure costs

HM Courts & Tribunals Service is required to pay the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early, unless the retirement is on approved medical grounds. The total cost is provided in full when the early departure programme or individual agreement is binding on HM Courts & Tribunals Service. The provision is measured at the present value of the expenditures required to settle the obligation. Where the effect is material, the estimated risk-adjusted cash flows are discounted using the nominal rate set by HM Treasury (2012-13: 4.1% and 2011-12: 4.9%). The increase in the provision due to passage of time is recognised as interest expense.

## 1.28 By-analogy pension scheme

HM Courts & Tribunals Service has three by-analogy pension schemes for the Immigration and Asylum Chamber (IAC), the Criminal Injuries Compensation tribunal (CIC) and the Residential Property Tribunal Service (RPTS) which are similar to the PCSPS. These are funded from the Department's Vote and payments are administered by the department and Capita respectively. Payments made to the IAC pensioners are made via the payroll system.

## 1.29 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### *Critical accounting estimates and assumptions*

HM Courts & Tribunals Service makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### *Valuation of property and equipment*

Land and buildings (including dwellings) comprise mainly court facilities. Land and buildings are shown at fair value, based on professional valuations. The Valuation Office Agency carries out the valuations in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual, known as the "Red Book".

The majority of buildings are valued at depreciated replacement cost to a modern equivalent basis. All other buildings are measured at fair value determined from market-based evidence. The value of HM Courts & Tribunals Service's land and buildings fluctuates with changes in construction costs and the current market value of land and buildings. The accounting policy for land and buildings is set out in note 1.10 and information on the land and buildings is set out in note 6.

In December 2010 ministers announced the decision to close 142 courts; 93 magistrates' courts and 49 county courts. The Court Estate Reform Programme (CERP) closes courts that are underutilised and have poor facilities, reducing future routine maintenance and running costs. These courts will no longer form part of HM Courts & Tribunals Service's operational estate in the future, therefore their valuation method has been altered from depreciated replacement cost to fair value less selling costs determined from market-based evidence. As this change in valuation method indicates a permanent diminution in value, any impairment has been taken direct to the Statement of Comprehensive Net Expenditure, with the balance of any Revaluation Reserve taken to the General Fund.

### *Lease accounting*

Judgement is required in the initial classification of leases as either operating leases or finance leases. Where a lease is taken out for land and buildings combined, both the building and land elements may be capitalised as separate finance leases if they meet the criteria for a finance lease. If the contracted lease payments are not split between land and buildings in the lease contract, the split is made based on the market values of the land and buildings at the inception of the lease. The accounting policy for leases is set out in note 1.14.

## 2. Statement of Operating Costs by Operating Segments

HM Courts & Tribunals Service is organised for management purposes into eight operational regions and a number of corporate areas.

For financial reporting purposes, the segment reporting format is determined based on the way in which the Chief Operating Decision Maker monitors the operating results of segments for the purpose of making decisions and allocating resources.

HM Courts & Tribunals Service's reportable operating segments are as follows:

- London Region
- North East Region
- South East Region
- North West Region
- Midlands Region
- South West Region
- Wales Region
- Scotland Region
- Centralised Frontline
- Central Estates
- Other

The operating segment's net cost of operations is measured on the same basis as the corresponding amounts reported in the financial statements.

Centralised front line costs include frontline operation costs not incurred directly by Regional Directorates such as Higher Judicial Salaries and fees, the National Taxation Team and Bulk Processing Centres and Enforcement.

### 2.1 Segment revenue and results

A description of the services from which the reportable segments derive income is provided in note 5. There were no inter-segment transactions in the year (2011-12: nil).

The following table presents the net operating costs of operations by reportable operating segments for the period ended 31 March 2013:

	2012-13	2011-12
	£000	£000
London Region	275,492	296,948
North East Region	112,273	125,974
South East Region	118,257	126,592
North West Region	116,063	123,555
Midlands Region	135,632	144,490
South West Region	69,698	75,697
Wales Region	55,856	58,074

Scotland Region	23,985	24,225
Centralised Frontline	268,705	264,984
Central Estates	238,866	239,077
Other	505,307	543,688
<b>Gross Expenditure</b>	<b>1,920,134</b>	<b>2,023,304</b>
<b>Income</b>	<b>(595,451)</b>	<b>(594,623)</b>
<b>Net Expenditure per Operating Cost Statement</b>	<b>1,324,683</b>	<b>1,428,681</b>

'Centralised Frontline' includes frontline operation costs not incurred directly by Regional Directorates such as Enforcement, Higher Judicial Salaries and Fees, the National Taxation Team and Bulk Processing Centres.

'Other' includes headquarters functions, centrally managed non-cash items and the MoJ overhead recharge.

'Income' is primarily managed centrally and therefore has been shown as a separate category.

### 3 Staff and judiciary costs and numbers

Staff costs and numbers are separated between those attributable to employees of HM Courts & Tribunals Service and those attributable to members of the judiciary. Each category is dealt with in the following notes, with total costs summarised in the table below:

	Notes	2012-13			2011-12		
		Admin	Prog	Total	Admin	Prog	Total
		£000	£000	£000	£000	£000	£000
Staff costs	3.1	16,828	519,636	536,464	18,828	603,851	622,679
Judiciary costs	3.2	150	457,333	457,483	24	462,517	462,541
Agency staff costs	3.1	-	19,470	19,470	-	7,875	7,875
<b>Total staff and judiciary costs</b>		<b>16,978</b>	<b>996,439</b>	<b>1,013,417</b>	<b>18,852</b>	<b>1,074,243</b>	<b>1,093,095</b>

#### 3.1 Staff costs comprise:

	2012-13		
	Permanently employed staff	Agency and contract staff	Total
	£000	£000	£000
Wages and salaries	417,097	19,470	436,567
Social security costs	27,044	-	27,044
Employer's pension contributions	70,490	-	70,490
Voluntary early departures	22,259	-	22,259
	<b>536,890</b>	<b>19,470</b>	<b>556,360</b>
Add: inward secondments	663	-	663
	<b>537,553</b>	<b>19,470</b>	<b>557,023</b>
Less: recoveries in respect of outward secondments	(1,089)	-	(1,089)
<b>Total staff costs</b>	<b>536,464</b>	<b>19,470</b>	<b>555,934</b>

	2011-12		
	Permanently employed staff	Agency and contract staff	Total
	£000	£000	£000
Wages and salaries	459,983	7,875	467,858
Social security costs	30,315	-	30,315
Employer's pension contributions	78,050	-	78,050
Voluntary early departures	54,817	-	54,817
	<b>623,165</b>	<b>7,875</b>	<b>631,040</b>
Add: inward secondments	737	-	737
	<b>623,902</b>	<b>7,875</b>	<b>631,777</b>
Less: recoveries in respect of outward secondments	(1,223)	-	(1,223)
<b>Total staff costs</b>	<b>622,679</b>	<b>7,875</b>	<b>630,554</b>

The MoJ offered a Voluntary Early Departure (VED) scheme to selected HM Courts & Tribunals Service employees. The terms of the scheme offered were in accordance with the Civil Service Compensation scheme introduced by the government in December 2010. The VED expenses reported above cover amounts paid to individuals who accepted the offer of voluntary exit and who were approved to leave during 2011-12 and 2012-13. In line with the terms of the Civil Service Compensation scheme, no ex-gratia amounts were paid to individuals who exited under the VED scheme. There were no compulsory redundancies during the period to 31 March 2013. A summary of VED exits is provided in note 3.1.3.

### 3.1.1 Pension scheme

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme, which prepares its own accounts, but for which HM Courts & Tribunals Service is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions)).

For 2012-13, employer's contributions of £70.4m (2011-12: £78.0m), were payable to the PCSPS at one of four rates in the range of 16.7% to 24.3% (2011-12: 16.7% to 24.3%) of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2012-13 to be paid when the member retires and not the benefits paid during this period to existing pensioners. The employer's contribution balance also includes the By-analogy pension scheme current service cost. More detail on this is provided in note 3.2.3

### 3.1.2 Average number of staff employed

The average number of full time equivalent persons paid during the year including Board members was:

	2012-13		
	Permanently employed staff	Agency and contract staff	Total
Directly employed	17,587	-	17,587
Other	-	682	682
Staff engaged on capital projects	-	-	-
<b>Total</b>	<b>17,587</b>	<b>682</b>	<b>18,269</b>

	2011-12		
	Permanently employed staff	Agency and contract staff	Total
Directly employed	19,383	-	19,383
Other	-	271	271
Staff engaged on capital projects	50	-	50
<b>Total</b>	<b>19,433</b>	<b>271</b>	<b>19,704</b>

### 3.1.3 Voluntary Early Departures

A summary of approved VED exits is shown below:

Exit package cost	Number of compulsory redundancies		Number of voluntary departures agreed		Total number of exit packages by cost	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
<£10,000	-	-	10	59	10	59
£10,000 - £25,000	-	-	88	368	88	368
£25,000 - £50,000	-	-	123	494	123	494
£50,000 - £100,000	-	-	118	254	118	254
£100,000 - £150,000	-	-	52	67	52	67
£150,000 - £200,000	-	-	13	20	13	20
£200,000 - £250,000	-	-	2	4	2	4
£250,000 - £300,000	-	-	1	2	1	2
£300,000 - £350,000	-	-	1	-	1	-
£350,000 - £400,000	-	-	-	-	-	-
£400,000 - £450,000	-	-	-	-	-	-
<b>Total number of exit packages by type</b>	-	-	<b>408</b>	<b>1,268</b>	<b>408</b>	<b>1,268</b>
<b>Total resource cost (£000)</b>	-	-	<b>22,259</b>	<b>54,817</b>	<b>22,259</b>	<b>54,817</b>

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full when HM Courts & Tribunals Service has agreed and is committed to the departure. Where HM Courts & Tribunals Service has agreed early retirements, the additional costs are met by HM Courts & Tribunals Service and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

### 3.2 Judiciary costs and numbers

Members of the judiciary are independent of HM Courts & Tribunals Service. Their payroll costs are met either from the consolidated fund, in the case of senior judiciary, or directly by HM Courts & Tribunals Service for other judiciary. All costs are included within HM Courts & Tribunals Service's Accounts to ensure that the full cost of operations is disclosed.

	2012-13				2011-12			
	Senior judiciary salaries	Other judiciary salaries	Fee paid	Total	Senior judiciary salaries	Other judiciary salaries	Fee paid	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Wages and salaries	125,271	103,512	115,568	344,351	126,397	102,533	120,049	348,979
Social security costs	15,525	12,185	12,318	40,028	15,565	12,050	12,647	40,262
Employer's pensions contribution	40,352	32,752	-	73,104	40,570	32,730	-	73,300
<b>Total payroll costs of the judiciary</b>	<b>181,148</b>	<b>148,449</b>	<b>127,886</b>	<b>457,483</b>	<b>182,532</b>	<b>147,313</b>	<b>132,696</b>	<b>462,541</b>

### 3.2.1 Average number of judiciary

The amounts in note 3.2 include salary costs for an average 952 (2011-12: 945) judicial officers and fees for 1,443 full-time equivalent fee paid judiciary (2011-12: 1,495). The salary costs of a further 925 members (2011-12: 933 members) of the senior judiciary were met from the consolidated fund.

### 3.2.2 Judicial Pension Scheme

The Judicial Pension Scheme is an unfunded multi-employer defined benefit scheme which prepares its own accounts, but for which HM Courts & Tribunals Service is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2009. Details can be found in the resource accounts of the Judicial Pension Scheme at [www.official-documents.co.uk](http://www.official-documents.co.uk).

Judicial pensions are paid out of the consolidated fund where the judicial office holder's salary was paid from that fund, or the Judicial Pension Scheme where the salary has been paid from the department's supply estimate. Contributions to the Judicial Pension Scheme have been made at a rate of 32.15% (2011-12: 32.15%).

The benefits payable are governed by the provisions of either the Judicial Pensions Act 1981 for those judicial office holders appointed before 31 March 1995, or the Judicial Pensions and Retirement Act 1993 for those newly appointed or appointed to a different judicial office on or after that date.

As described in note 20 Contingent liabilities and assets it is expected that the outcome of an upcoming Employment Tribunal will result in HM Courts & Tribunals Service having to incur employer pension contributions for fee paid judiciary in future years. However, as the case is yet to be heard no employer contributions have been incurred in the current year.

### 3.2.3 By-analogy pension scheme

HM Courts & Tribunals Service has three by-analogy pension schemes for the Criminal Injuries Compensation (CIC) tribunal, the Immigration and Asylum Chamber (IAC) and the Residential Property Tribunal (RPT) for which pension liabilities are given (see note 15.3).

An actuarial valuation was carried out at 31 March 2013 by the Government Actuaries Department (GAD) in respect of qualifying members for each scheme listed above.

### 3.2.3.1 The value of the scheme liabilities are as follows:

	2012-13 £000	2011-12 £000	2010-11 £000	2009-10 £000	2008-09 £000
<b>Liability in respect of:</b>					
Active members	1,457	1,389	-	-	152
Deferred pensioners	-	-	-	-	-
Current pensions	2,430	2,623	1,597	1,801	1,429
<b>Total present value of scheme liabilities</b>	<b>3,887</b>	<b>4,012</b>	<b>1,597</b>	<b>1,801</b>	<b>1,581</b>

### 3.2.3.2 The scheme liabilities under IAS 19 have been calculated using the following assumptions:

	2012-13	2011-12
Price inflation	1.70%	2.00%
Rate of increase in salaries	3.95%	4.25%
Rate of increase in pensions (deferred in payment)	1.70%	2.00%
Discount rate	4.10%	4.85%

The actuarial (gains)/losses on pension scheme liabilities are as a result of an actuarial valuation in respect of these schemes.

### 3.2.3.3 The following amounts have been recognised in the Statement of Comprehensive Net Expenditure

	Note	2012-13 £000	2011-12 £000
Current service cost	15.3	123	135
Interest cost	15.3	193	216
Past service cost	15.3	-	-
<b>Total charges</b>		<b>316</b>	<b>351</b>

### 3.2.3.4 Actuarial (gain) recognised in Other Comprehensive Expenditure

	2012-13 £000	2011-12 £000	2010-11 £000	2009-10 £000	2008-09 £000
Experience (gain)/loss arising in scheme liabilities	£000 (280)	(82)	11	54	386
	%* (7.2%)	(2.0%)	0.7%	3.0%	24.0%
Changes in assumptions underlying the present value of the scheme liabilities	£000 47	63	(48)	252	(104)
	%* 1.2%	1.6%	(3.0%)	14.0%	(6.6%)
<b>Total actuarial (gain)/loss</b>	£000 (233)	(19)	(37)	306	282
	%* 6.0%	0.5%	2.3%	(17.0%)	(17.8%)

\*Expressed as a percentage of the present value of the scheme liabilities at the Statement of Financial Position date.

### 3.2.3.5 The movement in scheme liabilities is analysed as follows:

	2012-13 £000	2011-12 £000
Present value of scheme liabilities at the start of the year	4,012	1,597
Increase in provision for current service cost	123	135
Interest on by-analogy scheme	193	216
Actuarial (gain)/loss on scheme liabilities	(233)	(19)
Benefits paid	(208)	(213)
Transfer from other department	-	2,296
<b>Present value of scheme liabilities at the end of the year</b>	<b>3,887</b>	<b>4,012</b>

The cumulative amount of actuarial gains and losses recognised in the Other Comprehensive Expenditure Statement since the introduction of resource accounting is a loss of £641k (31 March 2012: loss of £874k).

Contributions expected to be paid to the plan during 2013-14, including employee's contributions, are estimated to be 27.1% (2012-13: 25%) of pensionable salary.

## 4 Operating costs

### 4.1 Other operating costs consist of the following:

	2012-13		
	Administration £000	Programme £000	Total £000
Accommodation, maintenance and utilities	19	236,934	236,953
Juror costs	-	39,948	39,948
PFI service charges	-	22,661	22,661
Other service charges	5	13,600	13,605
Communications, office supplies and services	231	31,127	31,358
Contracted service costs	4,140	30,567	34,707
IT services	7,213	14,019	21,232
Consultancy costs	585	978	1,563
Other staff costs (including travel and subsistence)	1,275	8,538	9,813
Other judicial costs (including travel and subsistence)	966	36,254	37,220
Bank charges	-	3,736	3,736
Other costs	1,240	2,721	3,961
Capital grants	-	5,809	5,809
Other grants	-	65	65
	<b>15,674</b>	<b>446,957</b>	<b>462,631</b>
<b>Operating leases</b>			
Property rental costs	-	78,530	78,530
Hire of equipment and machinery	12	981	993
Other expenditure	18	1,115	1,133
	<b>30</b>	<b>80,626</b>	<b>80,656</b>
<b>Non-cash costs</b>			
External auditors' remuneration – audit of the Accounts	-	340	340
Net loss on disposal of property and equipment	-	1,046	1,046
(Increase) in valuation of property and equipment	-	(10,626)	(10,626)
Impairment of intangible assets	-	-	-
Decrease in fair value of investment properties	-	-	-
Decrease in fair value of assets held for sale	-	1,801	1,801
(Increase) in fair value of intangible assets	-	(216)	(216)
Capital Grants	-	682	682
Straight-line of operating lease payments	-	13,325	13,325
Amortisation of operating lease prepayment	-	5	5
Movement in provisions	-	24,139	24,139
Intra-departmental recharges	46,985	128,777	175,762

Movement in bad debt provision	-	(62)	(62)
Depreciation	-	102,010	102,010
Amortisation	-	15,368	15,368
	<b>62,689</b>	<b>804,172</b>	<b>866,861</b>

	2011-12		
	Administration £000	Programme £000	Total £000
Accommodation, maintenance and utilities	56	249,558	249,614
Juror costs	-	40,854	40,854
PFI service charges	-	20,371	20,371
Other service charges	6	12,910	12,916
Communications, office supplies and services	410	36,439	36,849
Contracted service costs	3,726	30,271	33,997
IT services	2,861	12,832	15,693
Consultancy costs	312	1,458	1,770
Other staff costs (including travel and subsistence)	1,537	9,397	10,934
Other judicial costs (including travel and subsistence)	1,223	42,547	43,770
Bank charges	-	3,693	3,693
Other costs	1,256	5,006	6,262
Capital grants	-	281	281
Other grants	-	15	15
	<b>11,387</b>	<b>465,632</b>	<b>477,019</b>

#### Operating leases

Property rental costs	-	76,010	76,010
Hire of equipment and machinery	6	1,295	1,301
Other expenditure	32	2,391	2,423
	<b>38</b>	<b>79,696</b>	<b>79,734</b>

#### Non-cash costs

External auditors' remuneration – audit of the Accounts	-	459	459
Net loss on disposal of property and equipment	-	4,375	4,375
Impairment of property and equipment	-	21,469	21,469
Impairment of intangible assets	-	5,152	5,152
Decrease in fair value of investment properties	-	15	15
Increase in fair value of assets held for sale	-	(2,791)	(2,791)
Increase in fair value of intangible assets	-	(8)	(8)
Notional rent	-	1,933	1,933
Straight-line of operating lease payments	-	15,766	15,766

Amortisation of operating lease prepayment	-	5	5
Movement in provisions	-	31,210	31,210
Intra-departmental recharges	31,694	108,022	139,716
Transfer from other agencies	-	(43)	(43)
Movement in bad debt provision	-	112	112
Depreciation	-	104,301	104,301
Amortisation	-	14,472	14,472
	<b>43,119</b>	<b>849,777</b>	<b>892,896</b>

### Departmental recharge

The departmental recharge represents the cost of services shared with the MoJ including human resources, IT, legal and judicial services and finance and administration.

### Auditors' remuneration

The costs of the audit performed by the National Audit Office on behalf of the Comptroller and Audit General are recognised as a non-cash charge. During the year HM Courts & Tribunals Service did not purchase any non-audit services.

## 4.2 Finance costs consist of the following:

	2012-13	2011-12
	£000	£000
Interest on pension fund transfer deficit	10,094	19,264
Finance charge on LGPS creditor	13,304	-
Interest on by-analogy pension scheme liability	193	216
Unwinding of discount on provisions	4,791	5,615
<b>Total non-cash finance costs</b>	<b>28,382</b>	<b>25,095</b>
Local authority loan interest	1,828	1,955
Finance charge on PFI and leased assets	9,646	10,263
<b>Total cash finance costs</b>	<b>11,474</b>	<b>12,218</b>
<b>Total finance costs</b>	<b>39,856</b>	<b>37,313</b>

## 5 Income

	2012-13	2011-12
	£000	£000
Fee income	477,092	479,575
Rental income	649	1,457
Recoveries from other Government Bodies	82,041	80,179
Bailiff fees	25,697	24,132
Miscellaneous income	9,972	9,280
<b>Total income</b>	<b>595,451</b>	<b>594,623</b>

Income relating to Administration and Programme respectively amounted to £859k (2011-12: £nil) and £594,592k (2011-12: £594,623k).

### Fee income

Fee income comprises amounts received from the business streams as shown in note 5.2.

### Rental income

Rental income comprises investment property rental, sub-letting and other rental paid by occupiers of the HM Courts & Tribunals Service estate.

### Bailiff fees

Represents recovery of Bailiff fees incurred by HM Courts & Tribunals Service in the collection of outstanding impositions.

### Miscellaneous income

Miscellaneous income relates to income received from sales of publications, insurance claims, vending machine receipts, telephone boxes and casual lettings.

## 5.1 Consolidated Fund Income

Total income does not include amounts collected by HM Courts & Tribunals Service where it was acting as agent of the Consolidated Fund rather than as principal. Full details of income collected as agent for the Consolidated Fund are in the HM Courts & Tribunals Service Trust Statement published separately from, but alongside, these financial statements.

## 5.2 Fees and Charges

HM Courts & Tribunals Service is required, in accordance with HM Treasury's 'Managing Public Money', to disclose performance results for the areas of its activities where fees and charges are made. The analysis is not intended to meet the requirements of the Statement of Standard Accounting Practice 25 – Segmental Reporting, which is not applicable to HM Courts & Tribunals Service under the FReM.

HM Courts & Tribunals Service covers the following business areas: civil and family courts, tribunal, criminal courts and other. Only civil and family courts and tribunal business have a system of charging fees. The policy and financial objective for civil and family business is to recover the full costs of the processes involved less the cost of funding fee remissions. Separate cost recovery targets have been agreed for the tribunal business. The system of fee remissions exists to ensure that individuals are not denied access to the courts if they genuinely cannot afford the fee.

HM Courts & Tribunals Service reports on both the civil and family courts and tribunals business segments. Civil business contains two business streams: family (including non-contentious probate and court of protection), higher courts and magistrates' courts; whilst tribunal business contains two business streams: immigration and asylum and other fee charging tribunals (including lands, residential property, gambling and gender recognition).

At the most recent review of Government spending, the Spending Review 2010 (SR10), the Ministry of Justice confirmed that it remains committed to delivering a simpler and more sustainable fees regime that delivers full cost recovery for Civil, Family and Administrative Justice. This is based on a solid understanding of the evidence and is built into the planned major reforms of the justice system. Much of the work to complete this objective will take place during the SR10 period.

In 2011-12 the Public Accounts Committee (PAC) made the following recommendations in respect of fee income:

- The Department should set fees so as to ultimately reach 100% cost recovery in a fair and equitable manner for family and civil business.
- The Department should demonstrate how it is monitoring the impact of fee changes on access to justice and to provide evidence that efficiency savings are being delivered.

The Department's aim is that by March 2015 there will be full cost recovery for civil and family business. The Department is committed to delivering a simpler and more sustainable fees regime which is based on a solid understanding of the evidence and fits the planned major reforms of the justice system and continues to keep the PAC updated with progress on all recommendations. The Department is committed to keeping the PAC updated with progress on all recommendations.

2012-13	Gross income	Income foregone via Remission	Net income	Expenditure [Note A]	Net (surplus)/ deficit	Gross (surplus)/ deficit	Fee recovery	
							Actual	Target
	£'000	£'000	£'000	£'000	£'000	£'000	%	%
				Notes 1, 2			Note 3	
<b>Civil business</b>								
Family [Note 4]	153,122	(16,691)	136,431	(263,056)	(126,625)	(109,934)	58%	100%
Civil [Note 5]	336,312	(6,514)	329,798	(337,807)	(8,009)	(1,495)	100%	100%
<b>Total civil business</b>	<b>489,434</b>	<b>(23,205)</b>	<b>466,229</b>	<b>(600,863)</b>	<b>(134,634)</b>	<b>(111,429)</b>	<b>81%</b>	<b>100%</b>
<b>Tribunal business [Note 6]</b>								
Asylum & Immigration [Note 7]	10,692	(729)	9,963	(94,135)	(84,172)	(83,443)	11%	25%
Other Tribunals [Note 8]	931	(31)	900	(12,601)	(11,701)	(11,670)	7%	-
<b>Total Tribunal Business</b>	<b>11,623</b>	<b>(760)</b>	<b>10,863</b>	<b>(106,736)</b>	<b>(95,873)</b>	<b>(95,113)</b>	<b>11%</b>	
<b>2012-13 Total HM Courts &amp; Tribunals Service business</b>	<b>501,057</b>	<b>(23,965)</b>	<b>477,092</b>	<b>(707,599)</b>	<b>(230,507)</b>	<b>(206,542)</b>	<b>71%</b>	
<b>2011-12 Total HM Courts &amp; Tribunals Service business</b>	<b>505,473</b>	<b>(25,898)</b>	<b>479,575</b>	<b>(712,530)</b>	<b>(232,955)</b>	<b>(207,057)</b>	<b>71%</b>	

**Notes:**

1. The costs above include the judicial costs that are borne directly by the Consolidated Fund.
2. The total resource spend for HM Courts & Tribunals Service modernisation of civil and family IT systems is included.
3. The fee recovery target is calculated using gross income against expenditure; this complies with HM Treasury's Managing Public Money guidance of setting fees 'at cost' Annex 6.2.
4. Court of Protection and Probate has been included within the family business line as the work of the probate registry comes under the Principal Registry of the Family Division of the High Court
5. Civil includes civil business in the county court and high court.
6. Only the income charging tribunals have been included in the table above.
7. The Immigration and Asylum Tribunal (IAC) target quoted reflects the proportion of tribunal cost on which fees were calculated, rather than a target for the 2012-13 financial year.
8. Other tribunals includes lands, residential property, gambling and gender recognition.

The most current fees orders are:

- **The Civil Proceedings Fees (Amendment) Order 2011 No.586 [L2]** which amends The Civil Proceedings Fees (Amendment) Order 2009 No 1498 [L15];
- **The Family Proceedings Fees (Amendment) Order 2011 No.587 [L3]**, which amends The Family Proceedings Fees (Amendment) Order 2010 no 1916 [L10];
- **The Non-Contentious Probate Fees (Amendment) Order 2011 No.588 [L4]** which amends The Non - Contentious Probate Fees (Amendment) Order 2009 No 1497 [L14];
- **The Magistrates' Courts Fees (Amendment No 2) Order 2010 [1917]** which amends The Magistrates' Courts Fees (Amendment) Order 2010 No 731 [L4].
- **The Court of Protection Fees (Amendment) Order 2009 [513]** which amends the Court of Protection Fees Order 2007 [1745]
- **The First-tier Tribunal (Immigration and Asylum Chamber) Fees Order 2011 No 2841.**
- **The Upper Tribunal (Immigration and Asylum Chamber) (Judicial Review) (England & Wales\_ Fees Order 2011 No 2344.**
- **The Upper Tribunal (Lands Chamber) Fees (Amendment) Order 2010 No.2601**, which amends the Upper Tribunal (Lands Chamber) Fees Order 2009 No.1114.
- **The First Tier Tribunal (Gambling) Fees (Amendment) Order 2010 No.633**, which amends the First Tier Tribunal (Gambling) Fees (Amendment) Order 2010 No.42
- **The Gender Recognition (Application Fees) (Amendment) Order 2012 No. 920** which amends the Gender Recognition (Application Fees) Orders 2006 No 758 and 2011 No 628,
- **The Residential Property Tribunal (Fees) (England) Regulations 2011 No 1007** which replaces The Residential Property Tribunal (Fees) (England) Regulations 2006 No 830.

## 6 Property and Equipment

2012-13									
	Land excluding dwellings	Buildings excluding dwellings	Land for dwellings	Dwellings	Information Technology	Equipment	Furniture, fixtures & fittings	Assets under construction	Total
	Notes 6.1, 6.3, 6.4	Notes 6.1, 6.3, 6.4	Note 6.2	Note 6.2					
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>									
<b>As at 1 April 2012</b>	<b>457,984</b>	<b>2,143,915</b>	<b>7,203</b>	<b>12,720</b>	<b>19,745</b>	<b>49,331</b>	<b>31,658</b>	<b>126,326</b>	<b>2,848,882</b>
Additions	586	439	-	-	99	628	436	75,969	78,157
Disposals	(283)	(1,336)	-	(14)	(9,235)	(2,628)	(135)	(229)	(13,860)
Reclassification	355	113,382	-	458	5,038	(102)	230	(118,208)	1,153
Impairment	(11,253)	(82,181)	(123)	(882)	-	-	-	(19,104)	(113,543)
Revaluation	26,759	93,026	676	91	2,123	1,282	752	-	124,709
Reclassified to assets held for sale	(17,785)	(30,647)	-	-	-	-	-	-	(48,432)
Transfers from the MoJ	-	-	-	-	-	12,221	-	(32)	12,189
<b>Transfers in from other public bodies</b>	<b>2,639</b>	<b>763</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,402</b>
<b>As at 31 March 2013</b>	<b>459,002</b>	<b>2,237,361</b>	<b>7,756</b>	<b>12,373</b>	<b>17,770</b>	<b>60,732</b>	<b>32,941</b>	<b>64,722</b>	<b>2,892,657</b>
<b>Depreciation</b>									
<b>As at 1 April 2012</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>11,628</b>	<b>32,193</b>	<b>17,227</b>	<b>-</b>	<b>61,050</b>
Charged in year	388	87,816	11	532	2,399	7,777	3,087	-	102,010
Disposals	(1)	(93)	-	-	(7,487)	(2,447)	(75)	-	(10,103)
Reclassifications	(2)	(34)	-	-	-	-	-	-	(36)
Impairment	(48)	(30,590)	-	(142)	-	-	-	-	(30,780)
Revaluations	(338)	(57,100)	(11)	(390)	651	673	399	-	(56,116)
<b>As at 31 March 2013</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,191</b>	<b>38,196</b>	<b>20,638</b>	<b>-</b>	<b>66,025</b>
<b>Net book value as at 31 March 2013</b>	<b>459,002</b>	<b>2,237,361</b>	<b>7,756</b>	<b>12,373</b>	<b>10,579</b>	<b>22,536</b>	<b>12,303</b>	<b>64,722</b>	<b>2,826,632</b>
<b>Net book value as at 31 March 2012</b>	<b>457,983</b>	<b>2,143,914</b>	<b>7,203</b>	<b>12,720</b>	<b>8,117</b>	<b>17,138</b>	<b>14,431</b>	<b>126,326</b>	<b>2,787,832</b>
<b>Asset financing</b>									
Owned	401,202	1,778,546	5,731	9,644	10,579	22,535	12,303	64,722	2,305,262
Finance leased	42,374	280,840	2,025	2,729	-	1	-	-	327,969
On-balance sheet PFI contracts	15,426	177,975	-	-	-	-	-	-	193,401
<b>Carrying value at 31 March 2013</b>	<b>459,002</b>	<b>2,237,361</b>	<b>7,756</b>	<b>12,373</b>	<b>10,579</b>	<b>22,536</b>	<b>12,303</b>	<b>64,722</b>	<b>2,826,632</b>

2011-12									
	Land excluding dwellings	Buildings excluding dwellings	Land for dwellings	Dwellings	Information Technology	Equipment	Furniture, fixtures & fittings	Assets under construction	Total
	Notes 6.1, 6.3, 6.4	Notes 6.1, 6.3, 6.4	Note 6.2	Note 6.2					
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>									
<b>As at 1 April 2011</b>	<b>495,723</b>	<b>2,123,183</b>	<b>6,893</b>	<b>12,294</b>	<b>101,199</b>	<b>43,568</b>	<b>31,181</b>	<b>142,172</b>	<b>2,956,213</b>
Additions	-	5,036	-	31	375	2,099	640	77,708	85,889
Disposals	(17,667)	(18,070)	-	(2)	(84,559)	(910)	(561)	(370)	(122,139)
Impairments	(14,171)	(7,034)	5	(285)	4	-	12	-	(21,469)
Reclassification	(6,948)	101,799	-	1,084	2,709	426	141	(96,305)	2,906
Revaluation	3,152	(58,881)	305	(402)	17	321	245	-	(55,243)
Reclassified to assets held for sale	(2,105)	(2,170)	-	-	-	-	-	-	(4,275)
Transfers from the MoJ	-	52	-	-	-	3,827	-	3,121	7,000
<b>As at 31 March 2012</b>	<b>457,984</b>	<b>2,143,915</b>	<b>7,203</b>	<b>12,720</b>	<b>19,745</b>	<b>49,331</b>	<b>31,658</b>	<b>126,326</b>	<b>2,848,882</b>
<b>Depreciation</b>									
<b>As at 1 April 2011</b>	<b>-</b>	<b>16</b>	<b>-</b>	<b>-</b>	<b>87,222</b>	<b>25,209</b>	<b>14,921</b>	<b>-</b>	<b>127,368</b>
Charged in year	346	86,221	11	404	7,026	7,543	2,750	-	104,301
Disposals	1	(764)	-	-	(82,964)	(736)	(560)	-	(85,023)
Reclassifications	(1)	1	1	-	334	-	-	-	335
Impairment	-	-	-	-	-	-	-	-	-
Revaluations	(345)	(85,473)	(12)	(404)	10	177	116	-	(85,931)
<b>As at 31 March 2012</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>11,628</b>	<b>32,193</b>	<b>17,227</b>	<b>-</b>	<b>61,050</b>
<b>Net book value as at 31 March 2012</b>	<b>457,983</b>	<b>2,143,914</b>	<b>7,203</b>	<b>12,720</b>	<b>8,117</b>	<b>17,138</b>	<b>14,431</b>	<b>126,326</b>	<b>2,787,832</b>
<b>Net book value as at 31 March 2011</b>	<b>495,723</b>	<b>2,123,167</b>	<b>6,893</b>	<b>12,294</b>	<b>13,977</b>	<b>18,359</b>	<b>16,260</b>	<b>142,172</b>	<b>2,828,845</b>
<b>Asset financing</b>									
Owned	404,918	1,704,864	5,178	10,115	8,117	16,896	14,431	126,326	2,290,845
Finance leased	37,570	259,906	2,025	2,605	-	242	-	-	302,348
On-balance sheet PFI contracts	15,495	179,144	-	-	-	-	-	-	194,639
<b>Carrying value at 31 March 2012</b>	<b>457,983</b>	<b>2,143,914</b>	<b>7,203</b>	<b>12,720</b>	<b>8,117</b>	<b>17,138</b>	<b>14,431</b>	<b>126,326</b>	<b>2,787,832</b>

Notes:

- 6.1 Included under land and buildings excluding dwellings are PFI contract assets with a net book value of £193.4m (2011-12: £194.6m) and depreciation charged in year of £4.5m (2011-12: £4.3m); also included are finance lease assets with a net book value of £323.2m (2011-12: £297.5m) and depreciation charged in the year of £14.6m (2011-12: £13.2m). Within buildings excluding dwellings £89.4m (2011-12: £89.7m) relates to leasehold improvements.
- 6.2 Included under Land for dwellings are finance leases with a net book value of £2.0m (2011-12: £2.0m) and depreciation charged in the year of £0.01m (2011-12: £0.01m). Included under Dwellings are finance lease assets with a net book value of £2.7m (2011-12: £2.6m) and depreciation charged in the year of £0.2m (2011-12: £0.2m).
- 6.3 On the formation of HM Courts Service (now HM Courts & Tribunals Service) in 2005 not all the properties incorporated into the new entity were transferred under "The Transfer of Property (Abolition of Magistrates' Courts Committees) Scheme 2005" (PTS). In 52 cases the property transfers were declared invalid in a high court judgment in 2005 and in a further 156 cases HM Courts Service's legal title was uncertain. The right to use these properties for Magistrates' Courts purposes is secured by the PTS. Subsequent negotiations with the owners of these properties have resulted in a valid transfer of title for most properties. The "Transfers in from other public bodies" balances relate to three of these assets which have legally transferred to HM Courts & Tribunals Service and four long leasehold land assets not previously recognised in the Statement of Financial Position.
- Only three of the magistrates' court properties have yet to transfer and HM Courts & Tribunals Service is seeking a negotiated valid transfer from the owners of two of these (2011-12: two) remaining properties valued at £2.4m (2011-12: £1.3m), one of which is recorded in the Statement of Financial Position at a value of £2.2m owing to HM Courts & Tribunals Service bearing the risks and rewards of ownership. The third property is also recorded in the Statement of Financial Position at a value of £0.5m, owing to HM Courts & Tribunals Service bearing the risks and rewards of ownership, but transfer is no longer being sought for this property as there is a joint agreement to dispose of it. Thus, of these properties, two (2011-12: two) are recorded in the Statement of Financial Position at a value of £2.7m (2011-12: £1.7m) as a result of HM Courts & Tribunals Service bearing the risks and rewards of ownership for these properties.
- 6.4 In December 2010 Ministers announced the decision to close 142 courts. This, in addition to 20 courts announced for closure in March 2010, contributed to a disposal programme of 162 buildings. At the start of the year 85 properties were yet to be marketed for disposal (2011-12: 108). During the year 19 properties were sold (2011-12: 11). Alternative use was found for five properties (2011-12: 2) and 41 properties were classified as assets held for sale (2011-12: 15). As at 31 March 2013, 20 properties remained under review. As these properties are not expected to form part of HM Courts & Tribunals Service's operational estate, their valuation method was altered from depreciated replacement cost to fair value less selling costs determined from market-based evidence. The original change in valuation method indicated a permanent diminution in their value. Any impairment was taken direct to the Statement of Comprehensive Net Expenditure, with the balance of any Revaluation Reserve taken to the General Fund in the year ended 31 March 2011. With any subsequent decrease in the carrying amount, the decrease is recognised in the Revaluation Reserve to the extent a balance exists in respect of that asset. Any further decrease in excess of revaluation surpluses is charged to 'Other Operating Costs' non-cash programme costs in the Statement of Comprehensive Net Expenditure.
- The total court closure impairment reversal for 2012-13 was £11.6m (2011-12 impairment charge: £19.3m).
- 6.5 Land and buildings (including dwellings) are shown at fair value, based on professional valuations. The Valuation Office Agency (VOA), who are independent of HM Courts & Tribunals Service, conduct valuations as at 31 March each year in accordance with the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Manual. Ingoing works are valued using the Building Cost Information Service Tender Price Index compiled by the RICS.
- 6.6 All assets other than 'Land and Buildings (excluding dwellings)' and 'Assets under Construction' are valued using the Producer Price Index produced by the Office for National Statistics (ONS).
- 6.7 As part of an ongoing review into the optimal utilisation of the courts estate, a review of the viability of the development plans at a number of sites is being undertaken. This review has resulted in an impairment of property, plant and equipment of £19.0m (2011-12: £nil) being recognised in the SoCNE to reflect the reduction in the value of assets under construction.

## 7 Investment property

	2012-13	2011-12
	£000	£000
<b>As at the beginning of the period</b>	<b>950</b>	<b>1,000</b>
Decrease in value of investment property	-	(50)
Transfer to Property and Equipment	(950)	-
<b>As at the end of the period</b>	<b>-</b>	<b>950</b>

A non-operational Crown Court valued at £950k was leased to a local police force. On cessation of the lease the vacant property was transferred back to Property and Equipment and disclosed under land and buildings, as it no longer attracted investment income.

Investment property rental revenue of £nil (2011-12: £0.02m) was recognised in the Statement of Comprehensive Net Expenditure.

## 8 Assets held for sale

As part of an ongoing court rationalisation review, HM Courts & Tribunals Service has committed to a plan to sell a number of surplus properties (land and buildings) that were previously used to provide court services. An active programme to locate buyers and complete the sale of each property has commenced and estate agents are actively marketing the properties. The properties are available for sale in their present condition and the sales are highly probable to occur within one year from the date of classification to assets held for sale within the Statement of Financial Position.

A net profit on disposal of assets held for sale as at 31 March 2013 of £1.7m (net loss as at 31 March 2012 - £0.1m) is included in net loss on disposal of property and equipment within Other Programme Costs in the Statement of Comprehensive Net Expenditure.

	2012-13	2011-12
	£000	£000
<b>As at the beginning of the period</b>	<b>5,405</b>	<b>20,252</b>
Assets reclassified from property and equipment (note 6)	48,431	4,275
(Decrease)/increase in fair value of assets held for sale (note 4.1)	283	2,791
Impairment (note 4.1)	(2,084)	-
Disposals	(33,686)	(21,913)
<b>As at the end of the period</b>	<b>18,349</b>	<b>5,405</b>

## 9 Intangible assets

	2012-13		
	Information technology	Assets under construction	Total
	£000	£000	£000
<b>Cost or valuation</b>			
<b>As at 1 April 2012</b>	<b>83,597</b>	<b>8,035</b>	<b>91,632</b>
Additions	-	-	-
Disposals	-	(19)	(19)
Reclassifications*	9,730	(9,968)	(238)
Revaluations	12,509	-	12,509
Transfers from other departments/agencies	-	2,110	2,110
<b>As at 31 March 2013</b>	<b>105,836</b>	<b>158</b>	<b>105,994</b>
<b>Amortisation</b>			
<b>As at 1 April 2012</b>	<b>33,167</b>	-	<b>33,167</b>
Charged in year	15,368	-	15,368
Disposals	(1)	-	(1)
Reclassifications	-	-	-
Revaluations	3,861	-	3,861
Transfers from other departments/agencies	-	-	-
<b>As at 31 March 2013</b>	<b>52,395</b>	-	<b>52,395</b>
<b>Carrying value at 31 March 2013</b>	<b>53,441</b>	<b>158</b>	<b>53,599</b>
<b>Carrying value at 31 March 2012</b>	<b>50,430</b>	<b>8,035</b>	<b>58,465</b>
<b>Asset financing:</b>			
Owned	<b>53,441</b>	<b>158</b>	<b>53,599</b>
Finance leased	-	-	-
PFI Contracts	-	-	-
<b>Carrying value at 31 March 2013</b>	<b>53,441</b>	<b>158</b>	<b>53,599</b>

\* Following the completion of a number of software projects classified as assets under construction, the assets were transferred to information technology (IT). As part of the go-live assessment £238k of IT hardware was identified and reclassified to Property and Equipment and disclosed under Information Technology.

	2011-12		
	Information technology	Assets under Construction	Total
	£000	£000	£000
<b>Cost or valuation</b>			
<b>As at 1 April 2011</b>	<b>86,014</b>	<b>5,165</b>	<b>91,179</b>
Additions	-	-	-
Disposals	(1,370)	(53)	(1,423)
Impairments*	-	(5,152)	(5,152)
Reclassifications	(3,420)	514	(2,906)
Revaluations	81	-	81
Transfers from other departments/agencies **	2,292	7,561	9,853
<b>As at 31 March 2012</b>	<b>83,597</b>	<b>8,035</b>	<b>91,632</b>
<b>Amortisation</b>			
<b>As at 1 April 2011</b>	<b>18,620</b>	<b>-</b>	<b>18,620</b>
Charged in year	14,472	-	14,472
Disposals	(1,147)	-	(1,147)
Reclassifications	(335)	-	(335)
Revaluations	8	-	8
Transfers from other departments/agencies	1,549	-	1,549
<b>As at 31 March 2012</b>	<b>33,167</b>	<b>-</b>	<b>33,167</b>
<b>Carrying value at 31 March 2012</b>	<b>50,430</b>	<b>8,035</b>	<b>58,465</b>
<b>Carrying value at 31 March 2011</b>	<b>67,394</b>	<b>5,165</b>	<b>72,559</b>
<b>Asset financing:</b>			
Owned	<b>50,430</b>	<b>8,035</b>	<b>58,465</b>
Finance leased	-	-	-
PFI Contracts	-	-	-
<b>Carrying value at 31 March 2012</b>	<b>50,430</b>	<b>8,035</b>	<b>58,465</b>

\* The impairment of £5,152k reflects all costs associated with the abandoned e-Working intangible asset under construction.

\*\* Included in Transfers from other departments/agencies is £743k of internal labour costs transferred from the MoJ Core ICT Department.

The net book values and remaining amortisation lives of individually material assets within intangible assets are detailed below:

Asset Description	2012-13		2011-12	
	Net book value	Remaining amortisation period (years)	Net book value	Remaining amortisation period (years)
	£000		£000	
Magistrates' Courts Operational Business Systems	9,524	4	10,890	5
Software upgrade programme to case management system	23,742	4	26,846	5
Digital Audio Recording Transcription Service (DARTS) software rollout	11,146	4	10,735	5

## 10 Financial instruments

IFRS 7 'Financial Instruments: Disclosures', requires disclosure of the role that financial instruments have had during the period in creating or changing risks an entity faces in carrying out its business.

As HM Courts & Tribunals Service is funded via MoJ, it is not exposed to the degrees of financial risk or market risk facing a business entity. Financial instruments also play a much more limited role in creating or changing risk than would be typical of the listed companies to which IFRS 7 primarily applies. HM Courts & Tribunals Service has no powers to borrow or invest surplus funds. Its financial assets and liabilities arise from day-to-day operational activities and are not held to hedge risks arising from these activities.

### Liquidity risk

HM Courts & Tribunals Service is financed by funds made available from the government and is therefore not exposed to significant liquidity risk.

### Interest rate risk

HM Courts & Tribunals Service is financed by funds made available from the government and is not therefore exposed to significant interest rate risk.

### Foreign currency risk

HM Courts & Tribunals Service has no material foreign currency revenue or expenditure and is therefore not exposed to significant foreign currency risk.

### Credit risk

Credit risks arise from HM Courts & Tribunals Service's financial assets, which comprise cash and cash equivalents, trade and other receivables and other financial assets. HM Courts & Tribunals Service's exposure to credit risk arises from the potential default of a counterparty on their contractual obligations resulting in financial loss to HM Courts & Tribunals Service.

Credit risk associated with HM Courts & Tribunals Service's receivables is minimal as most debtor balances are with other government related bodies. Credit risk in relation to receivables is also monitored by management regularly by reviewing the ageing of receivables. The maximum loss HM Courts & Tribunals Service is exposed to is the carrying value of its financial assets within the Statement of Financial Position.

### 10.1 Financial assets

	Notes	2012-13	2011-12
		£000	£000
Cash and cash equivalents	12	106	11,995
Trade receivables	11	9,124	5,342
Other receivables		33,702	29,287
Accrued revenue		11,713	9,015
Intra-departmental debtors	11	29,129	28,889
<b>Total financial assets</b>		<b>83,774</b>	<b>84,528</b>

Financial assets, other than cash and cash equivalents, are classified as trade and other receivables and are measured at amortised cost.

Financial assets have the following maturity profile:

	Notes	2012-13	2011-12
		£000	£000
Total amounts due within one year		83,555	84,417
Total amounts due after one year		219	111
		<b>83,774</b>	<b>84,528</b>
<b>Non-financial assets</b>			
Prepayments		20,813	19,348
VAT recoverable	11	9,798	9,809
<b>Total non-financial assets</b>		<b>30,611</b>	<b>29,157</b>

## 10.2 Financial liabilities

	Notes	2012-13	2011-12
		£000	£000
Bank overdraft	12	57,500	-
Trade payables	13	2,450	6,637
Other payables	13	21,609	24,053
Accruals		105,129	132,141
Creditor for capital value of PFI contracts	13	140,088	149,013
Creditor for pension transfer deficit: amounts payable to LGPS	13	203,182	167,867
Intra-departmental creditors	13	56,869	90,213
Local authority loans		36,076	38,992
Obligations under finance leases	13 & 18	17,412	17,699
<b>Total financial liabilities</b>		<b>640,315</b>	<b>626,615</b>

Financial liabilities are classified as trade and other payables and are measured at amortised cost.

Financial liabilities have the following maturity profile:

	Notes	2012-13	2011-12
		£000	£000
Total amounts due within one year		254,983	291,806
Total amounts due after one year		385,332	334,809
		<b>640,315</b>	<b>626,615</b>

### 10.3 Non-financial liabilities

	Notes	2012-13	2011-12
		£000	£000
Taxation and social security	13	17,622	18,335
Deferred revenue		4,671	4,740
Holiday accrual		11,798	12,826
Voluntary early departures		12,979	17,361
Lease incentives		76,968	63,643
		<b>124,038</b>	<b>116,905</b>

#### Fair values

The fair values of HM Courts & Tribunals Service's financial assets and liabilities as at 31 March 2013 and 31 March 2012 approximate their book values.

The fair value of the creditor for pension transfer deficit amounts payable to LGPS' has been derived by discounting the future cash payments to be made in order to extinguish the liability. The discounting is considered to be material to the accounts. Refer to note 15.1 for further information.

## 11 Trade and other receivables

Amounts due within one year:

	2012-13	2011-12
	£000	£000
Trade receivables	9,124	5,342
Other receivables:		
VAT recoverable	9,798	9,809
Intra-departmental debtors	29,129	28,889
Prepayments and accrued revenue	32,526	28,215
Other receivables	33,483	29,176
<b>Total amounts due within one year</b>	<b>114,060</b>	<b>101,431</b>

Amounts due after one year:

	Notes	2012-13	2011-12
		£000	£000
Other receivables		79	114
Prepayments	17	140	145
		<b>219</b>	<b>259</b>

### 11.1 Analysis of receivable balances by organisational type

	2012-13		2011-12	
	Amounts due within one year	Amounts due after one year	Amounts due within one year	Amounts due after one year
	£000	£000	£000	£000
Other central government bodies	49,027	-	40,297	-
Local authorities	1,998	140	1,147	145
NHS Bodies	3	-	-	-
Public corporations and trading funds	2,868	-	243	-
Bodies external to government	60,164	79	59,744	114
<b>Total trade and other receivables</b>	<b>114,060</b>	<b>219</b>	<b>101,431</b>	<b>259</b>

## 12 Cash and cash equivalents

	2012-13	2011-12
	£000	£000
<b>As at the beginning of the period</b>	<b>11,995</b>	<b>60,976</b>
Decrease in cash balances	(69,389)	(48,981)
<b>As at the end of the period</b>	<b>(57,394)</b>	<b>11,995</b>

**The following balances as at 31 March were held at:**

Government Banking Service	(57,500)	11,712
Cash in hand	74	241
Imprests	32	42
<b>Total cash and cash equivalents</b>	<b>(57,394)</b>	<b>11,995</b>

## 13 Trade and other payables

Amounts due within one year:

	Notes	2012-13	2011-12
		£000	£000
Other taxation and social security	10.3	17,622	18,335
Trade payables		2,450	6,637
Other payables		21,609	24,053
Intra-departmental creditors		56,869	90,213
Accruals and deferred revenue		135,625	167,723
Creditor for pension transfer deficit: amounts payable to LGPS	15.1	2,404	29,590
Finance leases		96	247
Imputed finance lease element of on-balance sheet PFI contracts		8,926	8,926
<b>Total amounts due within one year</b>		<b>245,601</b>	<b>345,724</b>

Amounts due after one year:

	Notes	2012-13	2011-12
		£000	£000
Capital value of PFI contracts		131,162	140,087
Other payables		111,996	101,980
Creditor for pension transfer deficit: amounts payable to LGPS	15.1	200,778	138,277
Obligations under finance leases		17,316	17,452
<b>Total amounts due after one year</b>		<b>461,252</b>	<b>397,796</b>

### 13.1 Analysis of payables by organisational type

	2012-13		2011-12	
	Amounts due within one year	Amounts due after one year	Amounts due within one year	Amounts due after one year
	£000	£000	£000	£000
Other central government bodies	89,166	-	127,515	-
Local authorities	22,039	236,854	37,188	177,270
NHS bodies	28	-	53	-
Public corporations and trading funds	385	-	306	-
Bodies external to government	133,983	224,398	180,662	220,526
<b>Total trade and other payables</b>	<b>245,601</b>	<b>461,252</b>	<b>345,724</b>	<b>397,796</b>

## 14 Notes to the Statement of Cash Flow

Summary of notional and non-cash costs are as follows for the year ended:

	2012-13	2011-12
	£000	£000
<b>Notional costs</b>		
Consolidated fund judicial costs – wages and salaries	125,665	126,397
Consolidated fund judicial costs – social security costs	15,525	15,565
External auditors' remuneration	340	459
Notional rent	-	1,933
Departmental recharge	175,762	139,716
<b>Notional costs</b>	<b>317,292</b>	<b>284,070</b>
<b>Non-cash costs</b>		
Net loss/(profit) on disposal of property and equipment	1,046	4,375
(Increase)/impairment of property and equipment	(10,626)	21,469
Impairment of intangible assets	-	5,152
(Increase) in fair value of intangible assets	(216)	(8)
Reduction/(increase) in fair value of assets held for sale	1,801	(2,791)
Operating lease prepayment amortisation	5	5
Reduction in fair value of investment property	-	15
Capital grants – property transfer	682	-
Straight-line of operating lease payments	13,325	15,766
Movement in provisions	24,262	31,345
Movement in accounts receivable impairment	(62)	112
Non cash movements in respect of intra-departmental transfer	-	(43)
Depreciation	102,010	104,301
Amortisation	15,368	14,472
<b>Non-cash costs</b>	<b>147,595</b>	<b>194,170</b>
<b>Total notional and non-cash costs</b>	<b>464,887</b>	<b>478,240</b>

## 14.1 Reconciliation of property, equipment and intangible assets

	2012-13	2011-12
	£000	£000
Additions per notes 6 and 9:		
Property and equipment	78,157	85,889
Intangibles	-	-
Plus:		
Increase/(decrease) in capital accrual	13,817	10,105
<b>Total additions per Cash Flow Statement</b>	<b>91,974</b>	<b>95,994</b>

## 15 Provision for liabilities and charges

	Notes	2012-13	2011-12
		£000	£000
Provision for pensions transfer deficit	15.1	-	182,464
Provision for early departure costs	15.2	109,434	107,411
Provision for by-analogy pension scheme	15.3	3,887	4,012
Other provisions	15.4	14,369	8,440
<b>Total provisions</b>		<b>127,690</b>	<b>302,327</b>

Provisions for liabilities and charges fall due as follows:

	2012-13	2011-12
	£000	£000
One year	11,347	25,109
Two to five years	35,762	136,516
More than five years	80,581	140,702
<b>Total provisions</b>	<b>127,690</b>	<b>302,327</b>

### 15.1 Provision for pensions transfer deficit

	2012-13	2011-12
	£000	£000
<b>As at the beginning of the period</b>	<b>182,464</b>	<b>198,727</b>
Increase in provision	12,099	30,000
Interest and unwinding of discount on pension transfer deficit	10,094	19,264
Utilised in year	(136,120)	(42,933)
	<b>68,537</b>	<b>205,058</b>
Amount reclassified to trade and other payables	<b>(68,537)</b>	<b>(22,594)</b>
<b>As at the end of the period</b>	<b>-</b>	<b>182,464</b>

The Courts Act 2003 legislated for the transfer of magistrates' courts functions and responsibilities to HM Courts & Tribunals Service. As a result, approximately 8,000 employees on the local Magistrates' Court Committees' contracts of employment transferred to HM Courts & Tribunals Service and required changes in their pension arrangements. The transferred staff became members of the Principal Civil Service Pension Scheme (PCSPS) on 1 April 2005. They were given options to transfer their accrued benefits to the PCSPS.

Approximately 6,000 staff opted to transfer their accrued service. The remainder opted to continue to hold their accrued pension benefits within the relevant Local Government Pension Scheme (LGPS). The LGPS does not operate as a single fund but is a series of funds administered locally.

All 8,000 transferred employees will, upon retirement, receive their pension in line with the agreed PCSPS benefits relating to the period from 1 April 2005 to the date of retirement. The 6,000 employees who opted to transfer their accrued pension benefits will receive their total pension in line with the agreed PCSPS benefits.

The PCSPS therefore needed to know the accrued pension entitlement for the 6,000 transferred staff. An agreement was reached between HM Courts & Tribunals Service and the Cabinet Office for HM Courts & Tribunals Service to pay an actuarially calculated amount to reflect the liability for the PCSPS arising from the individuals' periods of local government service transferred; plus/less an amount to meet any deficits/surpluses incurred as a result of the net asset/liability position for the individuals in the Local Government Pension Scheme (LGPS).

It was agreed that the past service pension liability would be calculated as at 1 April 2005 by the PCSPS' actuary. The Government Actuary's Department (GAD) estimated the pension liability as at 1 April 2005 of those employees who have opted to transfer service to the PCSPS. This calculation was based upon a number of fixed actuarial assumptions agreed by GAD, the Cabinet Office and HM Courts & Tribunals Service.

There are two key sets of assumptions which determine the liabilities:

- 1 The agreements with the LGPS schemes – signed by the actuaries and the LGPS schemes which specify the funds transferrable, and in the case of negative shares of funds, the payments to LGPS schemes; and
- 2 The assumptions agreed with PCSPS for calculating the PCSPS liabilities.

Following the employees' transfer from the administering local authority to PCSPS, the LGPS' were required to identify the underlying net funding position of the transferred employees. If a net deficit resulted due to the historic under-funding of the LGPS, then HM Courts & Tribunals Service was liable for the LGPS deficit in relation to the employees. However, if the LGPS had sufficient funds to cover retained liabilities, then the relevant portion of the net asset would be transferred to the PCSPS.

As part of the agreement, HM Courts & Tribunals Service agreed to fund the net deficit incurred by the PCSPS over a 10 year period subject to sufficient funding, including the interest implications arising from this approach. The provision made at inception in the 2005-06 HM Courts Service accounts was for £268.0m.

The value of the transferred pension asset or liability from the individual LGPS to PCSPS was calculated on each scheme's value as at the date of transfer and not as at 1 April 2005. Therefore, the transferred asset or liability was subject to uncertainty resulting from changes to the LGPS and market conditions up to the point that the transfer is finalised.

As at 31 March 2013, final transfer values have been agreed for all the LGPS funds. For those funds where positive transfer values were agreed, one-off payments have been made to the PCSPS for the value of the positive transfer amounts. For those funds where negative transfer values were agreed, a series of 10 annual payments, equal to the value of the agreed negative transfer amounts, will be made to the applicable LGPS funds.

As at 31 March, the LGPSs were at the following stages:

	2012-13	2011-12
Funds crystallised – positive transfer values agreed	5	5
Funds crystallised – negative transfer values agreed	36	30
Initial funding position provided, progressing to final agreement	-	4
Estimate of funding position to be provided	-	2
<b>Total number of schemes</b>	<b>41</b>	<b>41</b>

Following the crystallisation of the remaining 6 LGPS' during 2012-13 a full and final payment to settle the PCSPS liability to the Cabinet Office was made on 27 March 2013.

The table below summarises the position of the relevant components of the pension transfer deficit:

	Notes	2012-13	2011-12
Liability to PCSPS		-	128,000
Liability to LGPS where an initial funding position has been provided or an estimate of funding position is to be provided		-	53,464
Other *		-	1,000
<b>Total provision for the pension transfer deficit</b>	15.1	-	<b>182,464</b>
Liability to LGPS for crystallised funds – due within the year	13	2,404	29,590
Liability to LGPS for crystallised funds – due after one year	13	200,778	138,277
<b>Total liability for the pension transfer deficit</b>		<b>203,182</b>	<b>350,331</b>

\* In addition to the liabilities crystallised by the transfer at 1 April 2005, liabilities also transferred to HM Courts & Tribunals Service concerning two smaller prior staff transfers. Allowance for these liabilities has been included in the provisions above.

## 15.2 Provision for early departure costs

	2012-13	2011-12
	£000	£000
<b>As at the beginning of the period</b>	<b>107,411</b>	<b>109,472</b>
Increase in provision	5,873	1,289
Unwinding of discount	4,791	5,615
Utilised in year	(8,641)	(8,965)
<b>As at the end of the period</b>	<b>109,434</b>	<b>107,411</b>

Provision has been made for the costs of unfunded early retirement benefits of certain magistrates' court staff. The provision represents the present value of the costs of the benefit payable to staff on Crombie and local government early retirement terms.

Also included in early departure costs is a provision for unfunded early retirement costs of HM Courts & Tribunals Service staff in the PCSPS. Provision has also been made for costs related to the reorganisation and modernisation programme.

The provision has been calculated by discounting the estimated future cash flows using the nominal HM Treasury rate of 4.1% (2011-12: 4.85%).

The provision for early departure costs recorded above is separate to the Voluntary Early Departure (VED) scheme costs recorded in note 3.1.3.

### 15.3 By-analogy pension scheme

	2012-13	2011-12
	£000	£000
<b>As at the beginning of the period</b>	<b>4,012</b>	<b>1,597</b>
Increase in provision	123	135
Interest charge	193	216
Actuarial (gain) on scheme liabilities	(233)	(19)
Utilised in year	(208)	(213)
Transfer in from other department	-	2,296
<b>As at the end of the period</b>	<b>3,887</b>	<b>4,012</b>

The by-analogy pension scheme provision relates to three pension schemes for the Criminal Injuries Compensation (CIC) tribunal, the Immigration and Asylum Chamber (IAC) and the Residential Property Tribunal (RPT). These schemes have 1 member, 13 members and 31 members respectively.

The schemes' liabilities were valued by GAD as at 31 March 2013 (see note 3.2.3) and the associated interest and current service costs have been charged to the Statement of Comprehensive Net Expenditure.

The schemes are referred to as 'by-analogy pension schemes' as they are similar to the PCSPS. However, they are funded by provisions from the Department's Vote and pension payments are administered by the department and made via the payroll system.

### 15.4 Other provisions

	2012-13	2011-12
	£000	£000
<b>As at the beginning of the period</b>	<b>8,440</b>	<b>9,343</b>
(Decrease)/increase in provisions	6,167	1,126
Reversed in year	-	(1,205)
Utilised in year	(238)	(824)
<b>As at the end of the period</b>	<b>14,369</b>	<b>8,440</b>

## 16 Capital commitments

Contracted capital commitments not yet incurred as at 31 March 2013 are as follows:

	2012-13	2011-12
	£000	£000
Capital commitments at the end of the period not otherwise included in these accounts:		
Property and equipment	16,463	18,032
<b>Total capital commitments</b>	<b>16,463</b>	<b>18,032</b>

## 17 Operating leases

HM Courts & Tribunals Service leases various land and buildings under non-cancellable operating lease agreements. The land and buildings comprise mainly court facilities and have lease terms ranging from 3 to 125 years. The operating leases do not have purchase options, although some have escalation clauses and terms of renewal. Renewals are negotiated with the lessor in accordance with the provisions of the individual lease agreements.

HM Courts & Tribunals Service also leases various equipment and cars under non-cancellable operating lease agreements. The lease terms are between 1 and 14 years.

The non-cancellable operating lease expenditure charged to the Statement of Comprehensive Net Expenditure during the year is disclosed in note 4.

The total future minimum lease payments under non-cancellable operating leases for each of the following periods are as follows:

	2012-13			2011-12		
	Land and buildings	Other	Total	Land and buildings	Other	Total
	£000	£000	£000	£000	£000	£000
Not later than one year	85,442	739	86,181	93,957	723	94,680
Later than one year but not more than five years	299,947	1,164	301,111	356,320	1,157	357,477
Later than five years	1,157,990	-	1,157,990	1,235,194	-	1,235,194
<b>Total commitments under operating leases</b>	<b>1,543,379</b>	<b>1,903</b>	<b>1,545,282</b>	<b>1,685,471</b>	<b>1,880</b>	<b>1,687,351</b>

HM Courts & Tribunals Service earned sub-lease revenue of £0.3m (2011-12: £0.6m).

The minimum lease payments above are determined from the relevant lease agreements. The lease payments do not reflect possible increases as a result of market based reviews.

The prepaid operating lease balances under non-cancellable operating leases for each of the following periods are as follows:

	Notes	2012-13	2011-12
		£000	£000
<b>As at the beginning of the period</b>		<b>145</b>	<b>150</b>
Amortisation	4.1	(5)	(5)
<b>As at the end of the period</b>	11	<b>140</b>	<b>145</b>

## 18 Finance leases

HM Courts & Tribunals Service leases various buildings under non-cancellable finance lease agreements.

The total future minimum lease payments under non-cancellable finance leases for each of the following periods are as follows as at 31 March:

	2012-13			2011-12		
	Land and buildings	Other	Total	Land and buildings	Other	Total
	£000	£000	£000	£000	£000	£000
Not later than one year	947	-	947	926	219	1,145
Later than one year but not more than five years	3,869	-	3,869	3,895	233	4,128
Later than five years	160,896	-	160,896	161,818	-	161,818
Less: interest element	(148,300)	-	(148,300)	(149,295)	(97)	(149,392)
<b>Total present value of obligations</b>	<b>17,412</b>	<b>-</b>	<b>17,412</b>	<b>17,344</b>	<b>355</b>	<b>17,699</b>

Present value of obligations under finance leases for the following periods comprise:

	2012-13			2011-12		
	Land and buildings	Other	Total	Land and buildings	Other	Total
	£000	£000	£000	£000	£000	£000
Not later than one year	96	-	96	87	160	247
Later than one year but not more than five years	506	-	506	501	195	696
Later than five years	16,810	-	16,810	16,756	-	16,756
<b>Total present value of obligations</b>	<b>17,412</b>	<b>-</b>	<b>17,412</b>	<b>17,344</b>	<b>355</b>	<b>17,699</b>

HM Courts & Tribunals Service leases various buildings under non-cancellable finance lease agreements. The buildings comprise mainly court facilities and have lease terms ranging from 15 to 999 years. The finance leases do not have purchase options, although some have escalation clauses and terms of renewal. Renewals are negotiated with the lessor in accordance with the provisions of the individual lease agreements.

## 19 Private finance initiative

HM Courts & Tribunals Service has entered into eight private finance initiative (PFI) service concession arrangements. A summary of each PFI contract is set out below:

Project name	Contract start date	Duration of (years)	On/off Statement Financial Position	Initial capital value (£m)	Description
Probate Records	July 1999	25	Off	10.9	Provision of storage and retrieval services
Exeter	November 2002	30	On	20.1	Provision of a courthouse comprising four criminal courts, one civil court and four District Judge hearing rooms. At the end of the contract term the building will revert to HM Courts & Tribunals Service at no cost.
East Anglia	October 2002	25	On	34.5	Provision of Crown Court centres in Ipswich and Cambridge. Ipswich consists of five criminal courtrooms; Cambridge consists of three criminal courtrooms. At the end of the contract term the buildings in Ipswich and Cambridge will revert to HM Courts & Tribunals Service at no cost.
Sheffield	November 2002	25	On	7.7	Provision of a Family Hearing Centre in Sheffield. At the end of the contract term HM Courts & Tribunals Service has the option of acquiring the under lease at the lower of its open market value or £2.0m.
Derbyshire Magistrates' Courts	August 2001	27	On	29.5	Provision of serviced accommodation for magistrates' courts at New Mills, Chesterfield and Derby. The contract term can be extended (subject to agreement of mutually acceptable terms) by up to five years.
Hereford and Worcester Magistrates' Courts	March 2000	25	On	30.6	Provision of serviced accommodation for magistrates' courts at Bromsgrove, Kidderminster, Worcester and Redditch. The contract term can be extended for another 10 years.
Manchester Magistrates' Court	March 2001	25	On	32.9	Provision of an 18-courtroom courthouse.
Humberstone Magistrates' Court	March 2000	25	On	21.6	Provision of serviced magistrates' courthouses in Hull, Beverley and Bridlington. On expiry, HM Courts & Tribunals Service has the option of taking the assets back for a nominal amount of £3.0m.
Avon and Somerset Magistrates' Court	August 2004	27	On	46.6	Provision of serviced accommodation for magistrates' courts and offices in Bristol, Weston-Super-Mare and Flax Bourton.

## 19.1 On Balance Sheet Contracts

The total future minimum payments under non-cancellable PFI arrangements for each of the following periods are as follows as at 31 March 2013:

	2012-13	2011-12
	£000	£000
Not later than one year	17,041	17,577
Later than one year but not more than five years	62,808	64,950
Later than five years	129,178	144,076
<b>Minimum future lease payments</b>	<b>209,027</b>	<b>226,603</b>
Future interest expense	(68,939)	(77,590)
<b>Present value of minimum lease payments</b>	<b>140,088</b>	<b>149,013</b>

The present value of obligations under non-cancellable PFI arrangements for each of the following periods is as follows as at 31 March 2013:

	2012-13	2011-12
	£000	£000
Not later than one year	8,926	8,926
Later than one year but not more than five years	35,703	35,703
Later than five years	95,459	104,384
<b>Total present value of obligations</b>	<b>140,088</b>	<b>149,013</b>

## 19.2 Charge to the Statement of Comprehensive Net Expenditure and future commitments

The total amount charged in the Statement of Comprehensive Net Expenditure in respect of off-balance sheet PFI contracts (and other service concession arrangements) and the service element of on-balance sheet PFI contracts (and other service concession arrangements) was £36.3m (2011–12: £33.3m).

The payments to which the agency is committed in respect of on-balance sheet PFI contracts are as follows.

	2012-13	2011-12
	£000	£000
Not later than one year	37,371	36,045
Later than one year but not more than five years	144,129	138,825
Later than five years	321,200	331,424
<b>Total</b>	<b>502,700</b>	<b>506,294</b>

## 20 Contingent liabilities and assets

### *Contingent liabilities*

#### **Fee paid judicial office holder claims:**

Pension entitlements are provided to salaried judges under the Judicial Pension Scheme (JPS). In September 2005, a retired fee paid recorder brought a claim in the Employment Tribunal seeking retrospective parity of treatment with salaried judges by claiming pension entitlements under the Part Time Workers Regulations.

The UK Supreme Court ruled on 6 February 2013 that a fee paid recorder is entitled to a pension on terms equivalent to those applicable to a salaried circuit judge. The case has been remitted to the Employment Tribunal to determine the quantum of the pension to which the judge is entitled.

Based on the UK Supreme Court ruling and the potential outcome of the Employment Tribunal, an estimate of the liability to the group of fee paid judges to which the claimant belongs has been prepared. The liability has two main elements: a pension liability, with a separate element of the pension liability relating to fee paid judges, and a Judicial Service Award which compensates retirees for the tax paid on pension lump sums paid on retirement. Although the JPS is a defined benefit scheme, MoJ accounts for this scheme as a defined contribution scheme in accordance with FReM 12.2.5. The effect of this IFRS adaptation is that, although MoJ must account only for employer contributions payable to the JPS going forward, no contractual or other obligations arise for MoJ in respect of backlog payments or the pension liability arising pursuant to the claim. Accordingly, provision for the fee paid pension entitlement is recognised in the JPS accounts.

Neither the Judicial Service Award, nor the separate element of the pension liability relating to fee paid judges, are benefits covered by the JPS and its governing Acts, namely the Judicial Pensions Act 1981 and the Judicial Pensions and Retirement Act 1993. As such, these are obligations of the MoJ and are accounted for in the MoJ accounts.

Additional cases are stayed behind the lead case which was the subject of the UK Supreme Court ruling. In addition to a pension entitlement, the claims covered by the stayed cases extend to non-pension entitlements such as holiday and sick pay, payments in respect of training and writing up fees, increases in daily fees and cancellation fees where bookings are not honoured. The UK Supreme Court ruling on 6 February 2013 did not deal with these claims and therefore liability for these claims has not been established.

#### **Other contingent liabilities:**

HM Courts & Tribunals Service is involved in a number of legal cases dealing with ex gratia, compensation and other claims. The estimated cost of settlement for HM Courts & Tribunals Service is £3.8m (2011-12: £1.9m). In addition, as part of the court closure initiative, HM Courts & Tribunals Service may terminate a number of leases prior to their expiry dates. The expected cost of these terminations, should they occur, is £26k (2011-12: £1.2m).

As detailed in note 6.3, the result of the July 2005 High Court challenge meant that HM Courts & Tribunals Service has not been able to gain control of a number of properties intended to come within the 31 March 2005 Property Transfer Scheme. HM Courts & Tribunals Service faces a contingent accommodation liability for the properties that it is yet to control.

If HM Courts & Tribunals Service is not able to effect a transfer of ownership and control of these properties it faces potential accommodation obligations to the parties who ultimately own the property rights and will control the underlying economic benefits. Based on the rental value of the properties as at 31 March 2007, it is estimated that HM Courts & Tribunals Service could

be exposed to additional costs of up to £0.3m per annum (2011-12: £0.3m) with a total maximum contingent liability since 1 April 2005 of £2.6m (2011-12: £2.3m).

HM Courts & Tribunals Service has no other unquantifiable contingent liabilities.

## 21 Related party transactions

HM Courts & Tribunals Service is an Executive Agency of the MoJ, which is regarded as a related party. During the year, HM Courts & Tribunals Service has had material transactions with the MoJ and other entities for which the MoJ is regarded as the parent entity. The other entities are as follows:

- National Offender Management Service (NOMS);
- Office of the Public Guardian (OPG); and
- Legal Services Commission (LSC).

In addition, HM Courts & Tribunals Service has had material transactions with the following other government departments and other central government bodies:

- Department for Work and Pensions (DWP);
- City of London;
- Hampshire County Council;
- HM Revenue & Customs (HMRC);
- Home Office;
- The Insolvency Service;
- Warwickshire Police Authority;
- Birmingham City Council;
- The Crown Prosecution Service (CPS);
- Wales Office; and
- The Treasury Solicitor's Department.

Further information in respect of related party transactions related to fines and penalties collection activities can be found in the HM Courts & Tribunals Service Trust Statement.

Registry Trust Limited is a private company limited by guarantee with no share capital. It maintains the Register of County Court judgments on behalf of the Lord Chancellor and the Secretary of State for Justice. Revenue received from the Registry Trust Limited in the year amounted to £0.5m (2011-12: £0.6m) with a total debtor balance due to HM Courts & Tribunals Service as at 31 March 2013 of £0.1m (2011-12: £0.2m).

During both 2012-13 and 2011-12, no Board Members or other related parties have undertaken any material transactions with HM Courts & Tribunals Service.

HM Courts & Tribunals Service has a number of arrangements with the MoJ and its departmental bodies which are classified as intra-departmental recharges. These payments are for the use of assets and other services, and are expensed in the Statement of Comprehensive Net Expenditure each year as they are incurred. It is impractical to separate the payments reliably between those relating to assets, and those relating to other services. These arrangements contain no defined end date. The payments also include payments for non-lease elements in the arrangements.

## 22 Third party balances

HM Courts & Tribunals Service holds a number of cash balances on behalf of third parties. These consist of bail monies which are received and held while a criminal case progresses. At 31 March 2013 these amounted to £10,841k (2011-12: £11,249k) and have not been recognised in the accounts in accordance with FReM requirements.

## 23 Events after reporting period

### Financial reporting

In accordance with the requirements of IAS 10 'Events After the Reporting Period', post Statement of Financial Position events are considered up to the date on which the Accounts are authorised for issue. This is interpreted as the same date as the date of the Certificate and Report of the Comptroller and Auditor General. There were no such events requiring disclosure in or adjustment to the accounts.

## 24 Accountability

The following disclosures are included to comply with government accounting reporting requirements:

- There were 1,568 (2011-12: 1,428) cases of reported cash losses totalling £516,777.71 (2011-12: £184,479.53). These primarily relate to instances where small discrepancies arise in the receipting of cash at court level;
- During the year, a total of £72,061.23 (2011-12: £20,713.23) of debts were written-off as unrecoverable. These amounts had previously been recognised as an impairment expense in the Statement of Comprehensive Net Expenditure;
- There were 6,310 (2011-12: 8,376) cases totalling £1,449,917.80 (2011-12: £1,498,297.38) where fees were remitted for individuals who were not in receipt of government means tested benefits. In these cases, HM Courts & Tribunals Service has granted remission based on the Guidance for Administering the System of Fee Concession (EX160) published by MoJ;
- During the year there were 2,065 (2011-12: 2,122) special payments, totalling £1,761,274.90 (2011-12: £2,032,038.55). Special payments are those that go beyond administrative rules or for which there is no statutory cover or legal liability; and
- During the year there were 3 payments (2011-12: 4) in respect of interest paid under the Late Payment of Commercial Debts (Interest) Act 1988 totalling £899.73 (2011-12: £1,442.50).

## 25 Criminal Injuries Compensation Statement of Account as at 31 March 2013

This statement has been included in accordance with the accounts direction issued by the Secretary of State, in pursuance of section 6(3)(a)(ii) of the Criminal Injuries Compensation Act (CICA) 1995 and paragraph 4 of the Criminal Injuries Compensation Scheme 2001, after consultation with the Scottish Ministers in accordance with section 88(2) of the Scotland Act 1998 to report costs incurred by HM Courts & Tribunals Service in assessing Scottish CICA claims.

	2012-13		2011-12	
	£'000	£'000	£'000	£'000
Income *		(349)		(409)
Staff costs:				
Staff payroll costs	765		712	
Judicial payroll costs	<u>1,429</u>		<u>1,494</u>	
Total payroll costs		2,194		2,206
Other operating costs		<u>1,386</u>		<u>1,439</u>
Net cost of operations		<u><b>3,231</b></u>		<u><b>3,236</b></u>

\* Includes £349k (2011-12: £409k) contribution from the Scottish Executive towards Scottish cases.

## **Annex A: Data sources and data quality**

This annex gives brief details of data sources for the figures given in this report, along with a brief discussion on data quality. Further information can be found in 'Court Statistics Quarterly' and 'Quarterly Statistics for the Tribunals' via the Gov website at <https://www.gov.uk/government/publications/court-statistics-quarterly--2> and <https://www.gov.uk/government/publications/quarterly-statistics-for-the-tribunals--2>

### **County courts (non-family)**

This information has been produced using the Management Information System (MIS), a data warehousing facility drawing data from court-based administrative systems. County court data in MIS has been sourced from the 'CaseMan' administrative system, used by court staff for case management purposes. This contains good quality information about the incidence and dates of major events in a case's progress through the court system. Statistical quality assurance procedures include the identification and removal of duplicate entries for the same event in a case, and checks that data has been collated for all courts to ensure completeness. However, the numbers of small claims hearings and trials are dependent on court staff entering correct hearing outcome codes onto the system.

### **Family courts**

The data on the family courts was principally sourced from the county court administrative system FamilyMan (via MIS), used by court staff for case management purposes and containing good quality information about a case's progress through the family courts. Some data is also sourced from the HM Courts & Tribunals Service Performance Database. Statistical quality assurance procedures include the identification and removal of duplicate entries for the same case on the administrative systems, and checks that data has been collated for all courts to ensure completeness.

### **Crown Court**

The data on the Crown Court has been sourced from the Crown Court administrative system CREST (via MIS), used by court staff for case management purposes. This contains good quality information about the incidence and dates of major events of each case's progress in the Crown Court. Statistical quality assurance procedures include the identification and removal of duplicate entries, checks of apparent anomalies and checks for completeness.

### **Magistrates' courts**

The statistics on completed proceedings are sourced from the HM Courts & Tribunals Service Performance Database, which was rolled out across magistrates' courts during 2007-2008 and is populated using information contained on the Libra Management Information System and manual data collection. This contains good quality information about magistrates' courts' caseloads. Data provided by the courts must be checked and verified by court staff before being submitted onto the HM Courts & Tribunals Service Performance Database. The centrally collated data is subject to further checks including the investigation of apparent anomalies in the data.

The statistics on the effectiveness of recorded trials and the enforcement of financial penalties are also sourced from the HM Courts & Tribunals Service Performance Database.

Data relating to Breached Community Penalties is collected by courts on an MS Excel based tracker system, and snapshot data is collated centrally. The spreadsheet contains validations on key data, and further checks are completed centrally investigating anomalies in the data.

## **Tribunals**

The data on tribunals presented in this report are Official Statistics drawn from a number of administrative sources and quality checked and reconciled. Although care is taken when processing and analysing the data, the details are subject to inaccuracies inherent in any large-scale recording system and it is the best data that is available at the time of publication.



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(The Stationery Office) and available from:

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