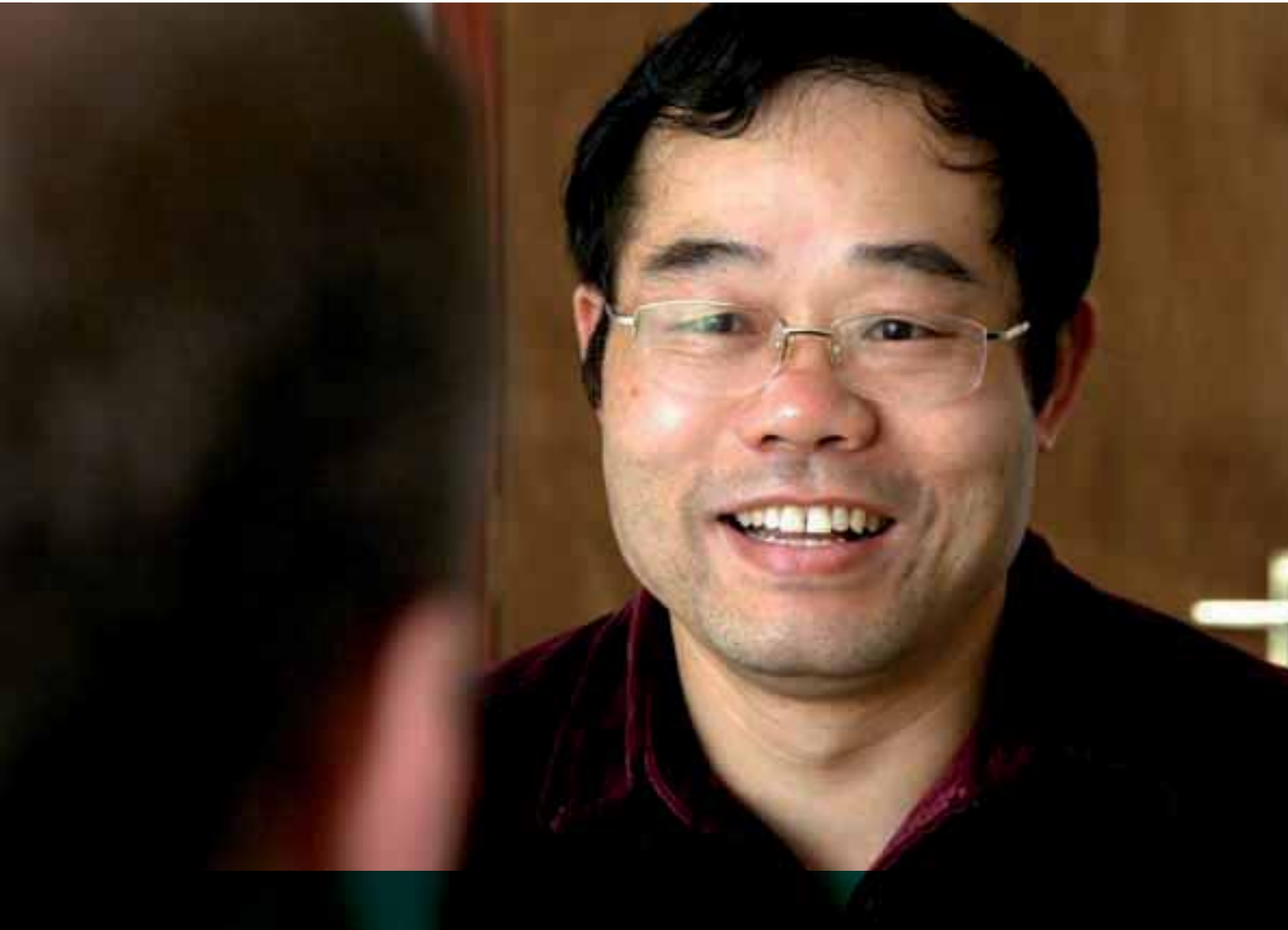


Annual Report and Accounts 2006/07



Helping more people with legal aid

Helping more people with legal aid

In 2006/07 the
Legal Services Commission
helped more people with civil
legal aid than at any point
since 2000. Together with
criminal legal aid we helped
more than 2 million people.

Legal Services Commission Annual Report and Accounts 2006/07

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

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Chair's review: Building on success



Increasing numbers of people helped

2006/07 proved to be another demanding but extremely productive year for the Legal Services Commission. With over 2.5 million acts of assistance funded through the Community Legal Service and Criminal Defence Service, our solicitor and not-for-profit providers again helped more people than ever before. We concentrated resources on the most vulnerable people in society, ensuring people got legal help and access to justice.

Reforming legal aid

It was another challenging year of evolution and continuous improvement. We took important steps forward in our transformation agenda. Through this, we aim to provide legal aid in England and Wales in a more efficient, targeted and responsive way, through

consistently high quality providers. In 2006/07 we implemented a number of key developments:

- With the then Department for Constitutional Affairs, we introduced a new means testing scheme in the magistrates' courts in October 2006, which means that criminal legal aid can now be targeted at those with the greatest need.
- We published *Legal Aid Reform: the Way Ahead* in November 2006, detailing our plans for legal aid reform for the next three years. This built on Lord Carter's inquiry into the future of legal aid, published in July 2006.
- Following consultation, we developed detailed proposals for reforming a wide range of legal aid schemes including police station work and the fees for mental health, immigration and family work.
- We introduced the Unified Contract for all civil providers at the beginning of April 2007. This means that the contract terms and conditions for not-for-profit providers are now on a par with those for solicitor firms.
- We launched seamless integrated services for social welfare law through two initiatives, which will be expanded to other areas in 2007/08:
 - In March 2007, we signed an agreement with Cornwall County Council to create England's first community legal advice network. Geographically diffuse providers are now able to provide high quality legal services to those in Cornwall's rural communities.
 - We opened our first community legal advice centre in May 2007 in Gateshead. The Gateshead area now has a central, integrated legal centre, giving advice on the full range of social welfare law problems.

The Constitutional Affairs Select Committee continued to keep a close eye on the LSC's activities. Carolyn Regan, Chief Executive and I appeared in front of the Committee in February 2007 and answered an interesting variety of questions. The Committee put forward recommendations on reform implementation to which ministers responded in June. The response

confirms the Government's and LSC's intention to proceed with the transformation of legal aid.

Stakeholder engagement

It is important to emphasise that because the reforms we are implementing are so ambitious and far ranging, it was inevitable that there would be some challenges to our working relationships during the implementation process. I am confident that our objectives are the same as those of our stakeholders in the justice system, in wanting to ensure a sustainable legal aid scheme where we can help more people while delivering better value for money. We will continue to engage with providers and their representative bodies to ease the process of transformation.

Internal changes

There have also been tough transformation decisions taken within the LSC itself. This includes keeping under continuous review our internal structures and reorganising the LSC's presence in the regions and Wales.

I was delighted that Carolyn Regan joined the LSC as Chief Executive at the end of September 2006, at such a vital time for the LSC. Carolyn brought a wealth of leadership and management experience to the role, gained at the most senior executive level in the health service. Carolyn's arrival signalled the retirement of the LSC's Deputy Chief Executive, Brian Harvey OBE. I would like to take this opportunity to thank Brian for his hard work and dedication, particularly during his time as Acting Chief Executive.

On behalf of everyone at the LSC I would also like to thank the two Commissioners whose terms of appointment came to an end in March 2007, Tony Edwards and Juliet Herzog. Their contribution and commitment as non-executives provided a sound basis from which we are now moving forward. I wish them every success in the future. I am very pleased to welcome our two new Commissioners, Barry Elliott and Jane Hickman, who joined us on 1 June 2007. They bring a wide range of

skills to the Commission and I am certain they will play important roles in overseeing the transformation of the LSC and legal aid over the coming years.

Looking to the future

In Spring 2007, the Ministry of Justice was launched as the LSC's new sponsoring department in government. The Ministry has responsibility for the whole of the justice system including prisons, offender management and the National Probation Service, the judiciary and legal aid. Following the combination of many of the former Department for Constitutional Affairs' responsibilities and some new areas of activity inherited from the Home Office, we are looking to create new opportunities to impact positively on whole system change, including legal aid and Her Majesty's Courts Service. This will involve working more closely with other organisations in the new Ministry of Justice family and we are setting ourselves firm targets to achieve this.

Over the year ahead and beyond I look forward to working with people at the LSC and the Ministry of Justice, and with our partners and stakeholders, to ensure we succeed in this period of transformation. In summary, our efforts are about ensuring that by 2009/10 the legal aid system in England and Wales will be better able to serve our most vulnerable people, while providing improved value for money for the taxpayer. The challenges are great, but the opportunities that present themselves are equally significant.



Sir Michael Bichard
Chair, Legal Services Commission
July 2007



The Legal Services Commission is responsible for delivering, through high quality service providers, legal aid, advice and representation to people with problems in England and Wales.

About the Legal Services Commission

The Legal Service Commission (LSC) enables people to protect their rights and deal with their problems. We also ensure that people accused of a crime can defend themselves. Our work safeguards people's rights in a civilised society, and is essential to the fair, efficient and effective operation of the justice system.

We commission the services people need from solicitors, barristers and advice agencies. Their skills and commitment are key to helping people resolve their problems – legal aid could not happen without them.

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

**Community
Legal Service**



**Criminal
Defence Service**



Our work safeguards people's rights in a civilised society, and is essential to the fair, efficient and effective operation of the justice system.

The Community Legal Service (CLS)

The CLS is a network of organisations which funds, provides and promotes civil legal advice and representation.

The LSC is responsible under the Access to Justice Act 1999 for developing and maintaining the CLS. We are exercising our responsibility by concentrating on:

- providing specialist legal services
- identifying client need for services
- facilitating joint planning and funding.

The Criminal Defence Service (CDS)

The CDS provides legal advice and representation to people being investigated or charged with a criminal offence.

We manage the duty solicitor schemes for police stations and magistrates' courts so that those who need advice and representation can see a solicitor; we fund services in the higher courts and provide services directly to the public through the Public Defender Service.

Our Vision

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

Our Vision, as set out in our *Corporate Plan 2007/08 – 2009/10*, is to be resolutely focused on clients, delivering positive outcomes and providing value for money.

Our Corporate Priorities

To help us achieve our Vision and deliver our objectives, we had four Corporate Priorities for 2006/07:

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

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

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

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

Our relationship with government

The LSC was established under the Access to Justice Act 1999, replacing the Legal Aid Board in April 2000. We are a public body sponsored by the Ministry of Justice (until May 2007 the Department for Constitutional Affairs). The Lord Chancellor and Secretary of State for Justice is accountable to Parliament for our activities and performance.

The Ministry of Justice (MoJ) agrees its overarching Public Service Agreement targets with the Treasury. The LSC in turn sets its objectives in discussion with the MoJ.

Moj Public Service Agreement target to which the LSC contributes

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

Moj Public Service Agreement targets relevant to the LSC

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

Key achievements during 2006/07

This year we achieved 12 out of 13 corporate targets, and built on our success in 2005/06 by again increasing the number of people helped with their problems.

Highlights of the year included that:

- legal aid funded over 2.5 million acts of assistance overall
- CLS providers delivered nearly 800,000 Legal Help acts of assistance. This represents a 12.5% increase on 2005/06 and is our most successful performance to date
- CDS providers delivered 1.6 million acts of assistance
- we maintained 100% coverage of the duty solicitor schemes
- we ran a full 12-week consultation that enabled us to set the way ahead for legal aid, and started to implement the transformation programme
- we continued to raise quality and performance standards among the legal aid supply base
- we implemented a number of changes within the legal aid system resulting in savings of over £206m
- we transformed our organisation to enable us to deliver the legal aid reform programme while successfully continuing with 'business as usual'
- we achieved 92% against our target of 88% on our national customer service score
- we increased the number of providers who process their claims online by over 50% to 3,036.

A summary of our performance in 2006/07 is in the table on page 7, with full details of our progress set out at the start of each chapter.

Priorities	Targets 2006/07	Status
Ensure that legal aid clients have access to quality services which meet their needs	1a Increase the number of acts of assistance (civil legal help) to our clients to 750,000 by 31 March 2007	Achieved
	1b Maintain the national coverage of duty solicitor schemes	Achieved
Work with service providers who provide quality, value for money and client focused services, in whom we have sufficient trust to liberate them to deliver	2a Drive up performance standards by taking every action possible to either improve or remove all contracts with ineffective suppliers by 31 March 2007	Achieved
	2b Reconcile 98% of contracts so that claims are within 90–105% of contract payments by 31 March 2007	Achieved
	2c 95% of not-for-profit organisations to be performing against their contracts at 95% and 100% of not-for-profit organisations to be performing at 85% by 31 March 2007. The not-for-profit supplier base overall must deliver 95% of the total contracted hours	Achieved
Deliver a sustainable scheme within the resources available and demonstrate real value to government in terms of effective financial control, improving value for money and positive outcomes for clients	3a Implement and manage changes to the scope of, and remuneration mechanisms for, legal aid approved by government to improve value for money and enable legal aid to be delivered within our resource provision, saving £181m by 31 March 2007	Achieved
	3b Reduce debt by £20m, including the recovery of £12m of debit notes, by 31 March 2007	Achieved
	3c Quantify the financial position with 80% of the suppliers in the first tranche of suppliers with unrecouped payments on account and have commenced the reconciliation process with them	Achieved
Transform our organisation to enable it to deliver these objectives and excellence in all that it does	4a Maintain the national customer service score target at 88% throughout the year	Achieved
	4b Achieve the LSC human resources score of 85% throughout the year	Not achieved
	4c Maintain the positive response to leadership staff survey questions at 45%	Achieved
	4d All customers that have an LSC registered charge against their property will be sent a statement informing them of their liability by 31 March 2007	Achieved
	4e Increase the supplier data that we process by LSC online to 136,250 lines by 31 March 2007	Achieved

Legal aid cash expenditure in 2006/07

Table 1: Community Legal Service, Criminal Defence Service and Commission payments 2006/07¹

	Payments (cash) £m ²	Acts of assistance 000s ²
CLS Licensed Work (gross)	774.2	179.5 ³
less operating receipts	(226.7)	–
CLS Licensed Work (net)	547.5	–
CLS Controlled Work	261.4	884.6
CLS total	808.9	1,064.1
CDS general criminal contracts (gross) ⁴	529.4	1,473.8
CDS Crown Court and higher courts representation (gross)	647.9	120.7
less operating receipts	(5.9)	–
CDS total (net)	1,171.4	1,594.4
CLS and CDS total (net)	1,980.3	2,658.5
LSC administration	114.4	–

1 CLS payments include Commission funded payments only.

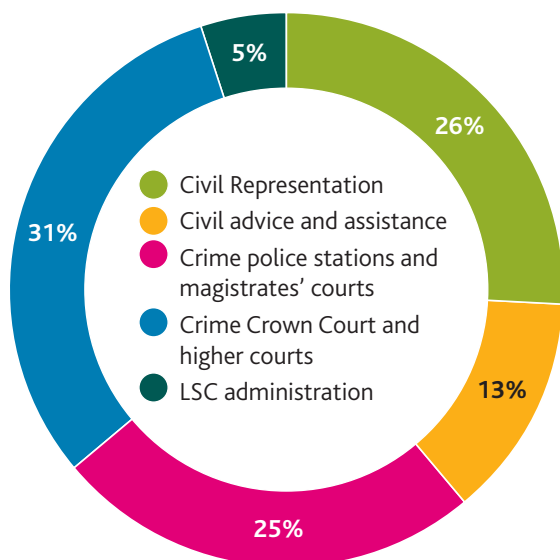
2 These figures may not sum to the total due to rounding. Some clients may have received more than one act of assistance during the year, and some acts of assistance may help more than one person.

3 Includes eligible clients in family mediations.

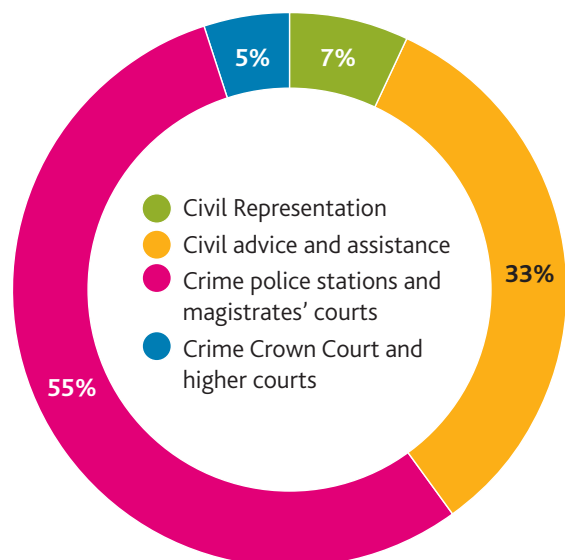
4 Acts of assistance include CDS Direct matters completed.

The figures in Table 1 are represented in the pie charts below:

Legal aid cash spend 2006/07 £2,094.7m



Legal aid acts of assistance 2006/07 2,658.5k



Controlled Work is work under the civil contract that covers legal advice and assistance (Legal Help), Help at Court and Legal Representation in front of Mental Health Review Tribunals and the Asylum and Immigration Tribunal.

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

Net CLS payments

Total payments from the CLS Fund during 2006/07 were £809m. Of this, £548m comprised Licensed Work, Very High Cost Cases and family mediation contracts and £261m was spent on Controlled Work. The expenditure on Controlled Work included £21m on grants, projects and other non-contract work. Of the Controlled Work payments, £82m was spent on immigration matters and £158m on other matters. This enabled service providers to deliver 1.1 million acts of civil assistance.

Net CDS payments

We spent £1,171m on the CDS during 2006/07. This enabled service providers to deliver 1.6 million acts of criminal assistance.

Administration expenditure

The final cash spend for the year was £114.4m including an additional pension fund contribution of £5m. Our expenditure on a resource basis is set out in the financial statements.

Our non-executive Commissioners

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



Sir Michael Bichard

Sir Michael was appointed Chair of the Legal Services Commission in April 2005. He also chairs the Commission's Transformation Board, the Finance and General Purposes Committee and the Human Resources Committee.



Angus Andrew

Angus was appointed to the Commission on 1 March 2004. He is a solicitor and chairs the Multi-Party Action Committee and Public Interest Advisory Panel. He is also a member of the Costs Appeals Committee and the Finance and General Purposes Committee.



David Edmonds CBE

David was appointed to the Commission on 1 March 2004. He chairs the Audit Committee and is a member of the Transformation Board and the Finance and General Purposes Committee.



Tom Jones OBE

Tom was appointed to the Commission on 1 March 2004. He has a special interest in Wales issues, chairs the Wales Committee for the CLS and is a member of the Audit Committee.



Lionel Joyce OBE

Lionel was appointed to the Commission on 1 July 2005. Lionel is the Commission's mentor on mental health issues and is a member of the Public Interest Advisory Panel.



Barry Elliott

Barry was appointed to the Commission on 1 June 2007. He is a member of the Audit Committee and the Finance and General Purposes Committee.



Tina Fahm

Tina was appointed to the Commission on 1 November 2004. She is the Commission's equalities mentor and chairs the Provider Diversity Reference Group. She is also a member of the Audit Committee and the Human Resources Committee.



Jane Hickman

Jane was appointed to the Commission on 1 June 2007. A practising solicitor, Jane is the Commission's criminal defence specialist.



Beryl Seaman CBE JP

Beryl was appointed to the Commission on 1 July 2005. Beryl chairs the Customer Redress Committee and is a member of the Human Resources Committee.



Dr Lily M Segerman-Peck

Lily was appointed to the Commission on 1 November 2004. She is a member of the Finance and General Purposes Committee.



Dr David Wolfe

David was appointed to the Commission on 1 October 2005. A practising barrister, David is the Commission's advocacy specialist.

Our Executive Team

With a head office in London, the LSC currently employs 1,450 permanent staff in 13 offices across England and Wales. Our organisation is divided into four directorates that effectively separate our day-to-day delivery and performance from our transformation programme. A member of our Executive Team leads each directorate.



Carolyn Regan
Chief Executive

Carolyn joined the LSC in September 2006. She has overall responsibility for the performance and management of the LSC, and is accountable to the Commission.



Richard Collins
Executive Director for Policy

Richard was appointed to this role in June 2004. He is responsible for the external implementation of the legal aid transformation programme, in particular the criminal and civil programmes.



David Godfrey
Executive Director for Corporate Services

David joined the LSC in April 2005. His main role is to pull together under one remit all of the services on which the LSC depends to drive and support its operations and the changes it needs to make as an organisation.



Mike Jeacock
Executive Director for Service Delivery

Mike was appointed to this role in June 2004. He is responsible for developing and delivering services that give consistent, high quality outcomes for legal aid clients.



Helen Riley
Executive Director for Organisational Transformation

Helen was appointed to this role in April 2007, on the departure of Jonathan Lindley. She is accountable for the coherence and deliverability of the entirety of the LSC's transformation programme. She also has accountability for delivery of the Organisational Transformation Programme.





About our annual report

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

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

Our annual report and accounts 2006/07 reviews the LSC's progress during the year towards fulfilling our commitments and objectives, as agreed with the Lord Chancellor and set out in our *Corporate Plan 2006/07*. Our corporate plans are published on our website at www.legalservices.gov.uk.

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

-  **Corporate Priority 1:** Ensuring legal aid clients have access to services
-  **Corporate Priority 2:** Working with high quality service providers
-  **Corporate Priority 3:** Delivering an affordable scheme
-  **Corporate Priority 4:** Transforming our organisation.

For each Corporate Priority, we set out our detailed corporate targets and milestones, which are taken from our *Corporate Plan 2006/07*. For each target or milestone, we include an assessment such as:

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

Unless otherwise stated, figures given in the text are on a cash basis, recording the amount that we spent during the financial year regardless of when the services were actually provided. This provides continuity with figures given in the LSC's previous annual reports.

We present statistical information for 2006/07 in a headline way. A detailed statistical analysis of our work, including comparisons with 2005/06, can be found on our website at www.legalservices.gov.uk/aboutus/how/strategic_publications.asp.

At page 40 you can find our financial reports. These explain our financial systems and processes and report on the more technical aspects of our performance. Our financial statements for 2006/07 have been audited by our external auditors, the National Audit Office, and are at the end of this report. In accordance with *Government Accounting*, our financial statements are prepared on an accruals basis, so that expenditure is matched to the period when the services bought with it were provided.



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

Corporate Priority 1

Corporate targets 2006/07

Target	Status	Progress in 2006/07
Increase the number of acts of assistance (civil legal help) to our clients to 750,000 by 31 March 2007	Achieved	By 31 March 2007 we had exceeded this target by increasing acts of civil assistance to nearly 800,000. This figure excludes immigration and asylum but includes telephone advice delivered by Community Legal Service Direct.
Maintain the national coverage of duty solicitor schemes	Achieved	We maintained 100% coverage of duty solicitor schemes throughout 2006/07.

Project milestones 2006/07

Milestone	Status	Progress in 2006/07
Open two community legal advice centres by Spring 2007	Partially achieved	The first community legal advice centre opened in April 2007 in Gateshead. The Gateshead centre is the first in a series of new networks and centres being established in England and Wales for people with the greatest need for legal and advice services. It is jointly funded with Gateshead City Council and the service is provided by Gateshead Citizens Advice Bureau, Gateshead Law Centre and three private practice firms.
Open a third community legal advice centre by Summer 2007	Changed	We now expect to have six services operational by Spring 2008. We are working with a number of local authorities across England to establish services, including Cornwall, Derby, Leicester and Portsmouth.
Expand pilot of CDS Direct and include 'own client' work	On track	After a successful pilot and further consultation, we are expanding CDS Direct to provide telephone advice to all clients detained in police stations for minor offences. All requests for publicly funded criminal defence services at the police station, including matters appropriate for referral to CDS Direct, will in future be routed through the existing Duty Solicitor Call Centre before being referred to the duty or own solicitor or straight to CDS Direct.

Currently the CLS Direct telephone service takes over 50,000 calls per month. Due to this success the LSC is now investing over £9m to expand the service.

Community Legal Service

The CLS funds the full range of legal services, from straightforward legal advice lasting only a short time to complex and lengthy proceedings requiring representation at court. These services are managed through contracts that the LSC awards to solicitors and not-for-profit agencies. The contracts are specific to certain categories of law. This allows the LSC to target the appropriate resources to the areas of greatest need.

Ensuring access to justice

The core purpose of the LSC is to provide access to high quality advice and legal representation to people in genuine need. It is one of our statutory duties to provide innovative legal services to the people of England and Wales. Through forming new ways to deliver quality services, the LSC is working with our partners to meet the challenges of the legal aid transformation programme. Throughout this process, clients remain our main priority. The way we purchase and deliver services is based around their needs. Our innovative services are continuing to help more people, within a fixed legal aid budget.

CLS Strategy

In order for the LSC to ensure that legal aid clients have access to quality services we have continued to pursue the objectives set out in the five-year CLS Strategy, *Making Legal Rights a Reality*. Published in 2006 following extensive consultation, the strategy paper sets out the direction the LSC intends the CLS to take.

We have now rolled out many aspects of the CLS Strategy to help ensure seamless, integrated social welfare law services and improved access to justice across England and Wales. Key developments so far include:

- expanding the CLS Direct telephone, internet and leaflet based services which provide help and advice about civil legal aid. Currently the CLS Direct telephone service takes over 50,000 calls per month. Due to this success the LSC is now investing over £9m to expand the service. The tendering process for this expansion culminated in eight companies being awarded contracts running from January 2007 for three years
- establishing community legal advice services in areas suffering from the most acute deprivation, where the social welfare law issues require a wide range of expertise

- opening the Gateshead centre in April 2007 to deliver integrated social welfare law services. Local residents can now access a full range of legal advice services from the same place. The same range of services is also available through a number of outreach venues in Gateshead
- signing an agreement in March 2007 with Cornwall County Council to develop a network in Cornwall to become operational in 2008/09. This will take account of the disparate location of many Cornish legal advice providers, by making it easier to refer clients to providers with particular expertise that may not be in the locality.

CLS Strategy in Wales

The unique governance situation in Wales, with the role of the Welsh Assembly, gives the LSC opportunities to provide high quality legal aid for people in Wales. In December 2006 we published a joint consultation paper with the Welsh Assembly Government, *Making Legal Rights a Reality in Wales*. A final version of the strategy will be published this Summer.

In March 2007 we launched the Wales Committee for the CLS, chaired by Commissioner Tom Jones OBE. The Committee will look at the impact of legal aid transformation in Wales to inform decisions taken by the LSC nationally.

Family strategy

Family legal aid, comprising over two thirds of civil legal aid expenditure, is vital in helping families deal with the problems they face. It therefore sits at the heart of the reform of the civil legal aid system.

In March 2007 we published *Making Legal Rights a Reality for Children and Families*. This sets out our priorities for funding family legal aid, including how we intend to work with other parts of the family justice system. It provides our framework for decision making over the next five years to enable us to deliver a more sustainable family legal aid scheme.

We are targeting resources where they can be most effective for priority clients and incentivising parents in private law proceedings to resolve cases without going to court. We will be purchasing integrated family and social welfare law services and piloting specialist family advice over the telephone, ensuring providers offer the

CASE STUDY: Mark Mayes CLS Direct

Mark Mayes was a bus driver for 20 years and during this time he developed a severe nickel allergy. This made it difficult for Mark to do his job and he was signed off sick. After being on sick leave for almost 12 months he received a dismissal letter without any consultation or request for medical reports. He was told it was because he was incapable of carrying out his duties and that there were currently no suitable alternative positions for him.

Mark originally met with his Union to discuss the issue but there was nothing they could do. He began contacting advice agencies to learn more about employment rights but was unsuccessful until he contacted Community Legal Service Direct.

A CLS Direct adviser told Mark what to expect when he went to an internal appeal hearing to appeal against the termination of his employment. His appeal was unsuccessful so he worked with his adviser to write a grievance letter. All advice was provided over the phone and the adviser helped Mark understand quite complex information, "There wasn't very much she said that I



didn't understand because she said it in such a way that you did."

With the support of the CLS Direct adviser, Mark took his company to an employment tribunal and sued for unfair dismissal and disability discrimination. The adviser prepared the case for Mark and he represented himself at the tribunal. He was successful and received a significant amount of compensation. Reflecting on the service he received from CLS Direct, Mark says, "I would definitely recommend the service. Even during the tribunal she gave me advice over the phone. I'd have been lost without it. The advice on the day was priceless."

full range of advice services and that clients have access to quality services which meet their needs.

Further information on all aspects of the CLS Strategy is available on the LSC website: www.legalservices.gov.uk.

Community Legal Service Direct

Since its launch in 2004, Community Legal Service Direct has had a huge impact on the ability of the LSC to ensure quality legal advice provision in all areas of England and Wales. It combines a telephone service, internet based information and leaflets under one recognisable brand. This has enabled the LSC to better coordinate the strategic planning of legal advice and improve access to that advice.

Those seeking legal advice can call 0845 345 4 345 or visit www.clsdirect.org.uk to get free information, help and advice regarding a wide range of common legal problems.

Performance and use

CLS Direct provides a useful service to those clients who would have found it difficult to access legal services, due to a lack of services in their locality, reservations about using traditional advice outlets or mobility problems.

CLS Direct recognises the diverse cultural and social composition of England and Wales and seeks to engage all parts of the community with legal advice provision. This includes providing leaflets in a wide range of languages and making the website speech-enabled.

2006/07 has seen an increase in use of CLS Direct by members of the public, fielding 637,504 calls, an increase of 25% compared to 2005/06.

Our specialist telephone advisers completed 111,245 cases in 2006/07, a rise of over 50% on 2005/06. A breakdown by category of cases completed is shown in Table 2.

Table 2: Breakdown of Community Legal Service Direct cases by category 2006/07

Category of work	Number of cases
Debt	36,144
Education	11,293
Employment	7,785
Housing	28,988
Welfare benefits	24,196
Other categories ¹	2,839

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

The CLS Direct website had nearly 3.3 million visits in 2006/07, the highest level yet, and the monthly average number of visitors increased from 175,550 in 2005/06 to 272,840 in 2006/07.

The LSC recognises that electronic resources are not accessible to everyone. Clients requested over 2.7 million leaflets, of which nearly a million were downloaded. This compares to 2005/06 when clients requested 2.5 million leaflets, of which just over a third of a million were downloaded.

Delivering access to justice

Below we report the headline movements in the number of contracts, numbers of acts of assistance and trends that these statistics show. The costs are reported in Table 1 on page 8. More detailed figures are available on our website at www.legalservices.gov.uk.

CLS contracts operate under two mechanisms:

Controlled Work: this covers the basic levels of legal advice and representation, including initial meetings, referred to as Legal Help. It also encompasses Help at Court and representation in front of Mental Health Review Tribunals and the Asylum and Immigration Tribunal.

Licensed Work: all other types of civil work are referred to as Licensed Work, except for Very High Cost Cases, which are managed using specialist contracts. Licensed Work puts no limits on the amount of work that can be done, but does require an application for funding to be sent to the LSC for each case. It is then up to the LSC to decide if the client meets the funding criteria and the case meets the merits test.

In 2006/07 we spent £809m funding service providers to give 1,064,000 acts of civil legal assistance. 159,000 clients received representation, with a further 21,000 eligible for legal aid taking part in family mediation. Excluding immigration and asylum, more people received legal advice and assistance in 2006/07 than at any time since 2000/01. The overall number of civil acts of advice and representation this year is a rise of 7% on last year.

CLS Controlled Work

Movement in the number of civil contracts

As at 31 March 2007 the total number of service providers holding a CLS contract was 3,895 compared to 4,101 as at 31 March 2006. Of these contracts, 3,437 were held by solicitors and 458 by not-for-profit agencies. This number represents a reduction of 5% on the previous year, and is part of a continuing trend that is a result of the LSC's drive to improve efficiency and increase the quality of providers. However, the number of acts of assistance continues to increase.

Categories of Controlled Work

The LSC grants contracts for specific areas of law to target resources where the need is greatest. These contracts decreased by 4% from 6,756 as at 31 March 2006 to 6,653 as at 31 March 2007.

From 1 April 2007 we introduced the new Unified Contract (see page 27). Nearly all civil legal aid providers signed the Unified Contract. To protect the interests of clients we authorised firms who chose not to sign the contract to continue with existing cases. However, they will not be able to accept new legal aid cases.

Civil acts of assistance

This year we again increased the number of civil acts of assistance funded by legal aid. At nearly 800,000 cases of civil legal help, the figure was up 12.5% from 2005/06, making this the second record-breaking year in a row.

Civil legal aid was given to people in two ways:

- face-to-face advisers delivered 685,244 new cases, an 8% increase on last year
- telephone advisers from Community Legal Service Direct started 111,319 acts of assistance - a 51% increase on last year's total.

In the field of Controlled Work an act of assistance is every instance in which a service provider gives legal help to a client, not including representation in court. Our target in this area of work was to increase the number of new acts of assistance to 750,000 by 31 March 2007, excluding immigration and asylum. This target contributes to the Ministry of Justice's Public Service Agreement to target resources in areas that help maintain fundamental human rights or tackle social exclusion. Table 3 below shows these acts of assistance by group.

Areas in which we helped people included: debt, employment, housing, mental health and family law, which includes domestic violence, children taken into care and resolving contact disputes.

Table 3: Acts of assistance by group 2006/07

Group	Number
Solicitors	446,794
Not-for-profit organisations	201,875
CLS Direct telephone advice	111,319
Other (such as pilots or projects)	36,575
Total acts of assistance	796,563

CLS Licensed Work

When a firm is granted a contract to carry out Controlled Work it is also able to undertake Licensed Work. A small number of firms have contracts to carry out Licensed Work only, 235 out of 3,437.

Table 4 gives the figures for the numbers of applications the LSC received for civil and family legal aid funding, the number of certificates for funding that we issued, the number of bills we paid for cases that were finished and the percentage of cases reported to be beneficial to the client.

Table 4: Work started, completed and billed 2006/07

	Funding applications received	Certificates issued	Main bills paid	Substantive benefit to client %
Family	157,117	127,659	129,241	56
Non-family	32,338	23,588	31,008	44
Total 2006/07	189,455	151,247	160,249	54
Total 2005/06	194,795	155,065	175,536	54

Family

Applications for family legal aid

Family legal aid saw a 2% reduction in the number of applications in 2006/07 but the picture is complicated:

- applications for representation in public law Children Act proceedings increased by 2%, with the bulk of the increase coming from non-means, non-merits tested parties directly involved in care proceedings
- private law applications fell by 4%, despite a 2% increase in applications for representation in domestic violence proceedings. This was largely due to the impact of the *New Focus* reforms introduced during 2005/06 (see *LSC Annual Report 2005/06* page 32)
- in private law Children Act cases the increase in the scope of General Family Help (GFH) produced a major switch from applications for full representation, down by 34% and 12,000 applications, to GFH, up by 22% and 11,000 applications
- in ancillary relief cases, although the number of applications for GFH (widely used as a first step in such cases) did not change significantly, the introduction of a new power to refer some applications for full representation to private funding

also produced a 34% fall in applications for full representation

- applications for Help with Mediation also fell by 6%.

Certificates issued for family legal aid

The shifting pattern of applications received produced corresponding changes in the numbers of certificates issued:

- public law Children Act certificates increased by 2%
- domestic violence certificates increased by 1%
- financial provision certificates fell by 16%
- there was almost no change in the number of private law Children Act certificates issued, but the proportion issued at the GFH level has risen from 1% in 2004/05 (before the *New Focus* reforms) to 56% in 2006/07
- certificates issued for Help with Mediation fell by 8%.

Bills paid for family legal aid

Bill volumes continued to reflect the longer-term decline in family certificate volumes with a fall of 7% from 2005/06 levels. This was offset by an overall increase of 11% in average costs, resulting in an increase of 3% or £15m in the total cost of main bills paid.

CASE STUDY: Alison Evans Help with debt problems

Alison Evans took out a number of loans last year and in paying them back she fell behind with her rent and council tax payments. As a result her landlord threatened a possession notice and she received a court summons from Brighton and Hove Council.

A Housing Officer from her local housing association referred her to Brighton Housing Trust (BHT) for help. BHT specialises in advice for housing, immigration, debt and welfare benefits and has been working with legal aid clients since 1989.

Alison's advisor at BHT, Lex Lewis, helped her prioritise her debts looking first at her rent and council tax arrears, and began writing to the people she owed money to. Alison, a single mother of three said, "It's quite a stressful time really, thinking I was going to be thrown out of my house. The courts were the first we wrote to because I thought I was going to be put into prison. I'm fine with it now as I'm paying it back. My arrears have been divided up throughout the year so it's not too bad."



Lex helped her put her budget together to address her debts. Her landlord agreed to stop possession action providing she continues to pay back her arrears and her local authority agreed to a weekly payment plan for her council tax liability. If Alison had not received help she fears the worst may have happened, "Either I would have been put in prison or would have been evicted through rent arrears. We would have had no roof over our head and my children might be in care."

Alison is working hard to follow her budget plan and is thankful for the help she received from BHT.

The main changes were:

- bills for special Children Act certificates in care proceedings fell by 11% in volume but average costs increased by 20%
- numbers of bills for domestic violence and financial provision fell by 9% and for private law Children Act certificates by 6%
- average costs increased by 11% for private law Children Act certificates, 7% for domestic violence and 4% for financial provision
- there was a 4% increase in Help with Mediation volumes but only a 1% increase in average costs.

Outcomes reported in family legal aid

A benefit to the client was reported by service providers in 56% of cases. There were some minor variations within and between categories of family law but overall the picture was stable.

Family mediation

In 2006/07 payments totalling £13.0m were authorised to fund 13,889 mediation case starts. During the same period, 66% of closed cases had a successful outcome. At the end of 2006/07, the LSC had contracts with 139 for-profit and 61 not-for-profit family mediation services.

Non-family

Applications for non-family legal aid

Applications for non-family representation continued the downward trend of recent years with a fall of 5%. There were small increases in the numbers of applications for some of the smaller categories such as employment, mental health and welfare benefits, but housing applications fell by 4%, clinical negligence by 7% and education by 19%.

Certificates issued for non-family legal aid

New certificate numbers reflected the fall in applications, reducing by 4% overall. Clinical negligence certificates were down by 4% and housing by 6%, but despite small reductions in the numbers of applications received, the numbers of immigration and nationality certificates issued increased by 4%. Certificates issued for actions against the police and other arresting authorities increased by 13%.

Bills paid for non-family legal aid

The *Funding Code*, which sets out eligibility criteria for legal aid, was approved by Parliament and came into force in April 2000. Some older cases started prior to

April 2000 in areas of law which the LSC no longer funds are still ongoing and we are still required to fund providers dealing with these cases. As these older cases finish the number and cost of non-family bills also continues to reduce. The reduction in volume in 2006/07 was 14% (double the rate in 2005/06) and the total value of bills paid reduced by 22% as average costs fell by 9%.

Non-family cases in particular include large numbers of 'set-off' cases, where the costs are actually agreed and paid by the opponents. As they can be agreed at market rates these tend to be higher value cases, and so as the older categories of work diminish this contributes to the overall reduction in average costs. The main changes were:

- personal injury volume fell by 38% and average cost by 4%
- consumer cases, which still include a substantial proportion of contract cases, showed reductions of 5% in volume and 26% in average cost
- the 'miscellaneous' category, which includes various other obsolete case types, reduced by 18% in volume and 24% in average cost.

Outcomes reported in non-family legal aid

The proportion of non-family cases where providers reported a substantive benefit to the client remained largely unchanged at 44%. The clinical negligence category involves a two-stage process including a wider investigative stage and representation only in cases which have a reasonable prospect of success. The proportion reporting a substantive benefit to clients increased from 31% in 2005/06 to 37% overall and from 58% to 64% in cases which had passed the investigative stage.

Funding appeals and reviews

If a legal aid applicant is refused public funding under Licensed Work they are entitled to appeal against that decision.

During 2006/07 there were 8,563 appeals in total. Of these 4,925 were granted after a review by the relevant regional office. Of the remaining cases, 3,607 were continued to a full hearing by either a Funding Review Committee or an Independent Funding Adjudicator (the adjudicators and committees are drawn from an independent panel of solicitors and barristers). Of these 929 were granted in full or in part. Many of the cases that were subsequently granted were granted on the basis of further information being given by the applicants.

In October 2006 the Commission introduced a more robust appeals procedure. Figures indicate that the changes are leading to more appeals being resolved at an earlier stage, as intended.

Exceptional funding

When a case falls outside the usual remit of CLS funding, clients can make an application to the LSC for exceptional funding. These cases include disputes, inquests and tribunal hearings.

Applications for funding go through an approval process by the LSC and then if successful are passed to the Ministry of Justice (MoJ) for consideration and a final decision by ministers.

In 2006/07 there were 253 applications for exceptional funding, which is fewer than the 365 received in 2005/06. The outcomes of exceptional funding applications determined during 2006/07 are shown in Table 5.

Table 5: Exceptional funding applications determined 2006/07

Outcome determined	Total %
Refused by the LSC ¹	53
Awaiting decision by the MoJ ²	2
Granted by LSC/MoJ	43
Refused by the MoJ	2

¹ Includes abandoned and withdrawn cases.

² Until May 2007 the DCA.

During 2006/07 we spent £1,171m on the CDS, which enabled us to provide 1.6 million acts of assistance.

Criminal Defence Service

The CDS ensures that people suspected of a crime have access to legal advice, assistance and representation, subject to financial eligibility.

The responsibilities of the CDS include:

- providing criminal defence services in police stations and magistrates' courts through contracts with private practice solicitors' firms
- managing the national network of police station and magistrates' court duty solicitor schemes
- managing individual case contracts for Very High Cost Cases, working closely with defence teams
- providing services directly to the public through the Public Defender Service
- contributing to the development of the criminal justice system.

A key aspect of contributing to a cost efficient and high quality criminal justice system is forming alliances with other stakeholders. The LSC has been working closely with the national and local Criminal Justice Boards, Her Majesty's Courts Service, the Police Service and the Prison Service, about streamlining and increasing whole justice system efficiency.

Movement in the number of criminal contracts

The LSC awards CDS contracts to providers, who are then quality assured to supply criminal defence services. At 31 March 2007 2,510 solicitors' offices operated under a CDS contract, a decrease of 3.7% on 2005/06.

Services provided through the CDS

During 2006/07 we spent £1,171m on the CDS, which enabled us to provide 1.6 million acts of assistance. Throughout 2006/07 we continued to maintain 100% coverage of the duty solicitor scheme at police stations across England and Wales, 24 hours a day, 365 days a year.

Table 6 shows a breakdown of the services provided to CDS clients and the levels of service provided. This includes providing legal aid so that a solicitor can be present at the police station through to defending clients in court if charges have been brought.

Delivering an affordable and efficient criminal legal aid system is a central tenet of the LSC's policy in developing the CDS. This is illustrated by the fact that

cash expenditure has fallen twice as fast as the volume of work being handled by the CDS this year.

In 2006/07 the number of people receiving advice and assistance, including that delivered by CDS Direct, at police stations, rose by 1% from 2005/06, whilst the overall cost of providing advice rose by 2%.

The Government's emphasis on crime reduction, with an increase in the number of police officers, has led to an increase in the number of arrests. Consequently, there has been an increase in the number of times a duty solicitor has attended a defendant at police stations and magistrates' courts.

The changes that the LSC and other criminal justice system partners have made have impacted on the volumes and scope of work in the police stations and magistrates' courts. The number of applications for representation orders has fallen whilst the length of time that a solicitor is required to advise a suspect at the police station has increased.

CDS Direct

CDS Direct is a telephone helpline that provides non-means tested legal advice direct to members of the public suspected of criminal offences and detained by the police. Examples of the offences handled by CDS Direct are driving with excess alcohol, failure to provide a specimen and breach of bail conditions.

A pilot project for CDS Direct went live in 2005 in Liverpool and Boston, Lincolnshire. The key aims of the pilot and the measures of its success were to:

- improve the speed at which detained clients could receive legal advice

- reduce the number of unnecessary call-outs for solicitors
- provide better value for money for public funds.

Evaluation of the pilot undertaken during 2005/06 showed that it met all these criteria in addition to:

- annual savings generated by the pilot to the legal aid fund, estimated at £3.9m
- 95% of calls were attempted within 15 minutes of the request for legal advice against a target of 70%
- 99% of calls were attempted within 30 minutes against a target of 95%.

Owing to its overwhelming success the pilot of CDS Direct has been extended and the service has now been running for more than 18 months.

We consulted on the expansion of the Duty Solicitor Call Centre and CDS Direct to cover 'own client' work in addition to their original remit. We published the post-consultation response in May, stating that:

- the Duty Solicitor Call Centre will be expanded to process all requests for publicly funded advice at the police station
- CDS Direct will be expanded to provide telephone advice in the minor cases that are considered suitable for telephone advice only, for matters that would otherwise have been referred to a named solicitor.

Help at the Crown Court

In October 2005 the Lord Chancellor introduced changes aimed at reducing expenditure in Crown Court cases. In 2006/07 the trend of increasing expenditure in the Crown Court reversed, falling by £53m.

Table 6: CDS types of service, numbers and total claimed 2006/07

Advice or representation	Types of service	Numbers ¹	Total claimed £000
Police station: suspects not yet charged	Free standing advice and assistance	13,790	1,543
	Police station advice and assistance	788,430	176,009
Lower courts: defendants who have been charged	Court Duty Solicitor sessions	79,536	18,856
	Representation orders	502,578	273,853
	Advice, assistance and advocacy where no representation order granted	52,309	16,567
Higher courts: defendants who have been charged	Very High Cost Criminal Case ² contracts let	419	104,568
	Representation orders	120,661	543,358

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

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



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

Corporate Priority 2

Corporate targets 2006/07

Target	Status	Progress in 2006/07
Drive up performance standards by taking every action possible to either improve or remove all contracts with ineffective suppliers by 31 March 2007	Achieved	By the end of March, we had improved or removed all contracts with service providers who had been identified as being ineffective and failed to improve.
Reconcile 98% of contracts so that claims are within 90-105% of contract payments by 31 March 2007	Achieved	We reconciled 98% of contract payments by 31 March 2007.
95% of not-for-profit organisations to be performing against their contracts at 95% and 100% of not-for-profit organisations to be performing at 85% by 31 March 2007. The not-for-profit supplier base overall must deliver 95% of the total contracted hours	Achieved	Performance across all three areas of the target was strong throughout the year.

Project milestones 2006/07

Milestone	Status	Progress in 2006/07
Introduce Unified Contract for all suppliers by April 2007	Partially achieved	The LSC introduced the Unified Contract for civil providers in April 2007 with 95% of solicitors and 98% of not-for-profit providers signing by the deadline. We plan to introduce the Unified Contract for crime providers in April 2008.
Introduce Preferred Supplier scheme by 2009	On track	In December 2006 the LSC published its response to the consultation on its proposals for a national Preferred Supplier scheme. In March 2007 we published the plan for rolling out quality assessment to support Preferred Supplier and best value tendering.

We aim to work with providers to ensure a high quality, value for money, open and diverse supply base for publicly funded legal services.

Working in partnership

We commission legal aid services from solicitors, barristers and advice agencies across England and Wales. These dedicated service providers are on the front line in delivering high quality advice to help people resolve their problems.

The LSC recognises the challenges of the transformation programme for legal aid providers. We aim to work with them to ensure a high quality, value for money, open and diverse supply base for publicly funded legal services.

Preferred Supplier scheme

The Preferred Supplier scheme will set higher entry standards for solicitors' firms and advice agencies wanting to do legal aid work, securing consistently higher quality services for clients, better value for taxpayers and simpler and clearer relationships with legal aid service providers.

High performing providers will be able to take advantage of a number of Preferred Supplier benefits aimed at transforming our relationship and increasing efficiency. The new way of working will reduce the traditional administrative obligations placed on providers.

In March 2006 the LSC published a consultation paper, *Quality Relationships Delivering Quality Outcomes*, inviting comments on proposals to establish a Preferred Supplier scheme. We held consultation events between April and June 2006 to gain feedback from providers on the draft scheme.

We published our response to the consultation setting out the way forward in December 2006. We developed the scheme further following consultation, to meet concerns expressed about the impact on small organisations and to allow time for providers to reach Preferred Supplier status.

The Preferred Supplier relationship is based on an up-front assessment of the provider's performance. This assessment will determine whether the organisation is a well managed and effective business capable of delivering good quality and value for money services to clients. Providers that perform well will enter the Preferred Supplier scheme first.

Through Preferred Supplier we aim to increase the minimum quality standard for providers, which will help prepare the sector for best value tendering from October 2008.

New legal aid lawyers

The LSC first introduced a training grants scheme in 2002. The LSC's investment in the next generation of legal aid solicitors already stands at over £10m. In June 2007 we announced that we would make a further 100 training grants available, worth almost £3m, to help fund the legal aid solicitors of the future.

The grants will meet the tuition fees of students on the one-year Legal Practice Course (LPC), which can cost over £8,000. It will also cover 75% of the Law Society's minimum salary and the cost of professional skills courses for successful LPC students on training contracts with a solicitor firm. This amounts to about £20,000 over a two-year period.

Priority will be given to organisations with contracts in the areas of mental health, family, social welfare law, immigration and crime. Under the scheme, firms can recruit a student who, on completion of their LPC, will join the organisation on a training contract.

The training grants provided so far will fund nearly 400 newly qualified solicitors working in legal aid. The legal aid solicitors trained through the scheme directly help some of the most vulnerable people in our society. The LSC also sponsors the 'Young Solicitor' category at the Legal Aid Lawyer of the Year awards.

Equality and diversity

The LSC is committed to promoting equality and eliminating discrimination both as an employer and through helping people to get access to quality legal services that meet their needs.

We have a diverse provider base that we want to sustain and develop so that it better reflects the communities it serves. We aim to work with our providers and partners to promote diversity within the legal profession so that services take account of the diversity of local populations, without compromising quality.

Through the legal aid transformation programme we aim to drive up quality, create a more open market, increase efficiency and maintain a diverse and competitive market.

We are continually assessing the impact of our transformation programme on clients and providers of legal aid services. As part of this process we work closely with the Provider Diversity Reference Group.

The Provider Diversity Reference Group, set up in July 2006, advises and constructively challenges the LSC as it develops its Vision and strategy. The Group is composed

of representatives from a wide range of equalities organisations. During 2006/07 the Group's work included considering any equalities impacts of the Unified Contract, fixed fees and the training grants scheme on providers and clients.

The new Unified Contract, introduced from April 2007 for civil providers, has significantly greater emphasis on diversity issues. We have made it a contractual requirement for providers to adopt equality and diversity policies that help them meet the diverse needs of the clients and of the communities they serve.

The LSC believes that every client is entitled to access legal aid services that are relevant, appropriate and accessible to meet their needs. This is an important challenge, but one which we are committed to as part of our overall strategy to promote access to justice.

Legal aid contracting

The Unified Contract

Since the LSC introduced civil contracting in 2000 and criminal contracting in 2001 we have developed several mechanisms for ensuring quality supply, including peer review, file assessment and quality profiles. We have also undertaken contract management activities to help us ensure that providers are delivering value for money and supply effectively meets demand across England and Wales.

The Unified Contract for civil legal aid providers took effect from 1 April 2007. It aligns contract conditions for not-for-profit organisations with solicitors' firms that carry out civil work. The Unified Contract is a natural progression from the contracts first introduced in 2000. It prepares the way for wider reforms which are designed to offer improved services for clients and better value for taxpayers.

In addition to bringing not-for-profit agencies into line with solicitors' firms, the main changes include:

- creating a more efficient way of working with our high quality service providers by issuing one contract per organisation rather than one per office, as had previously been the case. Each contract contains a schedule setting out the work that individual offices can undertake
- introducing new provisions relating to e-business and equality and diversity which are of real benefit to legal aid clients, the LSC and our providers
- enabling the LSC to set a minimum number of new cases to be started by an individual office each year as

well as a maximum. This allows us to ensure adequate provision of services to meet the needs of vulnerable clients in a specified area

- giving the Commission the right to amend the Unified Contract when necessary.

In addition the LSC introduced changes to the General Criminal Contract. These enabled revised standard fees for solicitors working in magistrates' courts to be introduced in 16 urban areas including London, Birmingham and Manchester on 16 April 2007. The revised standard fees include payments for the work solicitors carry out on behalf of clients as well as incorporating travel and waiting. Fixed fees are designed to enable firms to make efficiency savings and prepare to bid competitively for contracts in future. We plan to extend the Unified Contract to criminal providers in April 2008.

Not-for-profit sector

The not-for-profit sector is an important part of the provider base. Contracts with not-for-profit advice agencies account for 32% of our annual Legal Help expenditure and constitute over 68% of our provision in social welfare law. Such contracts, including contracts for immigration and asylum work, are now worth £79.5m.

We will continue to work with the not-for-profit sector to improve value for money and productivity, for example through contract auditing, so that it stands comparison with solicitors' firms. We also recognise the unique role that the sector has in bringing wider funding into the legal aid system and aim to work together to achieve our common goals to benefit people in genuine need of advice.

CASE STUDY: Barbara Greaves The Unified Contract

The Citizens Advice Bureau (CAB) in Wisbech, Cambridgeshire, was set up in the late 1970s. They have had LSC contracts to deliver debt and welfare benefits advice since April 2000.

Barbara Greaves, a supervisor at Wisbech CAB, provides specialist advice on debt and welfare benefits. Debt problems can be extremely complex as they may include many different issues, such as eviction notices, council tax arrears, bailiff action, court demands and bankruptcy.

The Unified Contract aims to improve efficiencies and offer greater value for money for the taxpayer. Barbara is sympathetic to the reasoning behind the changes, "I am fairly happy with the Unified Contract, and we do understand the need to be cost effective and accountable. There were initial concerns, however these have been duly addressed by the LSC during consultation, and the fixed fee amount for debt has been increased. Obviously, we will have to wait and see how it works in practice, but we do not foresee too many problems."

The Unified Contract is changing the way the LSC and the not-for-profit sector work together. Barbara is positive, "We all have a job to do and need to work together. Good communication is the essence of an effective and successful working relationship and we have



always found the LSC to be responsive and constructive in their efforts to find a resolution."

Wisbech CAB will continue to work with the LSC and provide legal advice to those who need it the most. Linda Hutchinson, CAB manager says, "LSC funding has enabled a great many more people in the Fens, in the East of England, to receive free debt advice and gain control of their spending. Without it these people would have no help at all."

Contract review

Failure to improve performance standards may result in the LSC refusing or terminating a provider's contract.

If a provider does not agree with our decision, or they allege we have breached the contract, a review process is available. There were 77 requests for contract review during 2006/07. Of these, two were subsequently withdrawn, 69 were resolved on internal review and six were referred to the Contract Review Body.

Quality standards for publicly funded advocates

A working group, chaired by Lord Justice Thomas, was established during 2006/07 to develop a quality assurance scheme for advocates. The Commission was part of this group along with the regulatory and representative arms of the Law Society and the Bar Council, the Ministry of Justice, the Crown Prosecution Service and the Solicitors' Association of Higher Court Advocates.

The LSC is working closely with the working group and the Institute of Advanced Legal Studies to develop and implement proposals to drive up quality standards in this key sector of legal aid provision.

Public Defender Service (PDS)

The PDS was established in 2001 as the first salaried criminal legal aid service in England and Wales. PDS staff are directly employed by the LSC, whereas the majority of criminal legal aid work is contracted out to private firms. In 2006/07 the service dealt with over 5,000 cases.

An impartial research team that reported in 2006/07 found that the PDS provided a better quality of service overall than private practice. They also found that the independence of the advice given by the PDS was not affected by being directly employed by the LSC. In addition over 90% of PDS clients were satisfied with the service they received and would recommend the PDS to someone else.

In 2006/07 the Commission considered the future shape of the PDS in light of the research findings, the needs of clients and the legal aid transformation programme. The PDS has demonstrated that it can provide high quality, independent advice to people who need criminal defence services, but because of the way it was initially set up some offices have proved to be more cost effective than others.

The LSC did not reopen the Middlesbrough PDS that closed part way through 2006. The offices in Birmingham, Chester and Liverpool also closed. They all operated in areas with ample alternative supply, which is likely to be why they did not capture enough work to give value for money. Wherever possible the offices completed existing clients' cases, but where appropriate clients of the closed offices were helped to find another high quality provider.

The service continues to provide high quality advice and representation to clients in Cheltenham, Darlington, Pontypridd and Swansea. The LSC will review the performance of the Pontypridd and Swansea offices after 2007/08, looking for further improvements in cost effectiveness.

The purpose of the service as it goes forward is to improve value for money while continuing to provide good advice to clients, giving the LSC benchmarking information on quality and cost, and modelling the impact of proposed changes in policy and delivery for criminal defence practice.

PDS statistics for 2006/07 are now published on the LSC website at www.legalservices.gov.uk/aboutus/how/strategic_publications.asp.



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

Corporate Priority 3

Corporate targets 2006/07

Target	Status	Progress in 2006/07
Implement and manage changes to the scope of, and remuneration mechanisms for, legal aid to be delivered within our resource provision, saving £181m by 31 March 2007	Achieved	By April 2007 we had achieved savings of over £206m through a series of initiatives. The savings can be broken down as follows: £84m on work in the higher criminal courts; £64m on work in magistrates' courts and police stations; £19m on civil Licensed Work and £39m on civil Controlled Work.
Reduce supplier debt by £20m, including the recovery of £12m of debit notes, by 31 March 2007	Achieved	We reduced supplier debt by £20.2m and recovered debit notes worth £16.3m.
Quantify the financial position with 80% of the suppliers in the first tranche of suppliers with unrecouped payments on account and commence the reconciliation process with them by 31 March 2007	Achieved	We exceeded this target by quantifying the financial position and commencing the reconciliation process with all of the first tranche of service providers, and have now moved on to complete a large number of the second tranche.

Project milestones 2006/07

Milestone	Status	Progress in 2006/07
Introduce revised standard fees for magistrates' courts in main urban areas by April 2007	Achieved	With effect from 16 April 2007 the LSC implemented revised standard fees for solicitors working in magistrates' courts in London, Birmingham and Manchester. The revised standard fees include fixed payments for travel and waiting.
Revise fees for Crown Court advocates by April 2007	Achieved	Proposals for the advocates graduated fee scheme met with a positive response from the profession following consultation. The LSC implemented the revised fees in April 2007.
Introduce fixed fees for police stations by October 2007	On track	The LSC's consultation on police station reforms ran from February to April 2007, and our post-consultation response was published in June. The fixed fees will replace the existing hourly rates for time spent giving advice, travelling and waiting. To reflect local conditions and practices, the fee will vary depending on the area where the work is carried out.
Introduce graduated fees for Crown Court litigators by October 2007	Changed	We are now preparing to implement graduated fees for Crown Court litigators later in 2007/08. We launched a consultation on the proposed arrangements in June 2007.

Project milestones 2006/07 continued

Milestone	Status	Progress in 2006/07
Introduce replacement fixed and graduated fee schemes for most civil, family, mental health and immigration and asylum schemes by October 2007	On track	With the exception of mental health, which is delayed until early 2008, we are on course to implement the replacement fixed and graduated fee schemes for these areas in October 2007.
Establish a quality assured and best value tender panel for Very High Cost Criminal Cases by October 2007	On track	We are on course to implement the new panel in October 2007. We consulted on the arrangements during February and March 2007 and issued our post-consultation response and application packs in May.
Roll out the new boundaries for the General Criminal Contract by October 2007	On track	In February 2007 the LSC issued a consultation paper to the representative bodies explaining the reasons for changing the contract boundaries. The consultation lasted six weeks and concluded in April 2007. We plan to implement the new boundaries in October 2007.
Launch best value tendering for criminal legal aid by October 2008	On track	The implementation of Preferred Supplier began in May 2007, an important step towards best value tendering. In March 2007 we issued an indicative timetable for implementing the quality assessment process for best value tendering. We will be consulting on the way forward later in 2007.

We aim to improve control over costs because the better value for money we can achieve, the more people we can help

Legal aid transformation

Background to the reforms

Legal aid expenditure has increased substantially over the last 10 years. We aim to improve control over costs because the better value for money we can achieve, the more people we can help.

A Fairer Deal for Legal Aid, published in July 2005, set out the Government's long-term strategy for legal aid. The paper identified the need to rebalance spending between civil and criminal legal aid, as well as various areas in which the current system needed to be modernised.

Following this, Lord Carter of Coles was commissioned to conduct an independent review into legal aid procurement. Lord Carter's remit was to deliver a system that would achieve maximum value for money, whilst ensuring quality and the fairness of the justice system. He recommended a move towards competition to reward good quality, efficient practitioners by giving them the opportunity to grow through access to increased volumes of work.

The then Department for Constitutional Affairs and LSC published a joint consultation paper on the proposals, *Legal Aid: a Sustainable Future* in July 2006. This included

detailed proposals for reforms to the legal aid schemes. The consultation period lasted 12 weeks and we received more than 2,300 submissions from our stakeholders.

On 28 November 2006 we published an analysis of responses to *Legal Aid: a Sustainable Future*, together with a paper setting out next steps entitled *Legal Aid Reform: the Way Ahead*, available on the LSC website.

The transformation programme flows from Lord Carter's year-long review of how legal aid services are purchased and the consultation that followed. The response to the consultation, and research such as the Otterburn Legal Consultancy report into sustainability, significantly influenced our thinking on the detail of the different schemes and the timetable for change.

The way ahead

Legal Aid Reform: the Way Ahead provides the blueprint for a major programme of transformation as part of moves to modernise the legal aid system to ensure the sustainability of legal aid, so that publicly funded civil

and criminal legal services can continue to safeguard the rights of some of the most vulnerable people in society.

We endorsed Lord Carter's key recommendation to move payment for legal aid services from a traditional system of hourly rates to one of best value tendering based on quality, capacity and price. To allow providers time to adapt their businesses to a market-based approach, there will be a transition period where they will be paid fixed and graduated fees for different types of work.

The package of reforms sets out:

- how we pay for services, outlined by Lord Carter
- what civil legal services we intend to buy to meet client needs, outlined in the CLS Strategy
- who we buy services from and how we ensure quality, outlined in the Preferred Supplier scheme.

In 2006/07 we made progress in the following *Way Ahead* proposals:

- a Unified Contract for civil legal services, starting with standard terms to bring law firms and not-for-profit organisations under the same contract conditions

CASE STUDY: Gerard Maye New ways of working

Gerard Maye is a criminal defence lawyer at his firm Gerard Maye Legal Ltd working with a range of clients from those arrested for petty theft to those charged with manslaughter. He has worked in criminal defence for the last 15 years, as he believes in protecting people's rights. On working with legal aid clients Gerard says, "It makes a useful contribution to the local community and it gives me and the people in my practice the opportunity to put something back into society."

The legal aid reform programme has affected Gerard's firm but although he sees some challenges ahead he feels there are opportunities too, "It's become clear, locally in Sussex and I suspect in other parts of the country too, that a number of different mergers if not acquisitions are taking place."

The LSC's move to fixed or graduated payment structures under the reform programme will give providers a greater degree of financial control and security. This new way of working will benefit efficient providers. Gerard agrees efficiency is a key opportunity, "I see that firms are encouraged to become increasingly more efficient. From my point of view the greater the efficiency in the practice,



the greater the quality of the work and of course the greater the potential profitability of the business."

Gerard believes that if the main aspects of the reform programme are implemented soon it will allay any concerns the profession has about the future of legal aid. It will help him plan for the future, "I think it will enable firms such as mine to begin to attract proper talent, allowing us to begin to invest in proper training and proper IT, to ensure we are ready to embrace the main proposals."

- fixed fees for police station work, subject to further consultation on the implementation details
- revised standard fees for magistrates' courts which include an element of travel and waiting, in major urban areas
- a revised graduated fees scheme for Crown Court advocates
- a graduated fees scheme for Crown Court litigators
- revised graduated fees for care proceedings
- revised graduated fees for family law – private work
- best value tendering for criminal legal aid services, subject to further consultation.

Further details of the legal aid transformation programme, as well as further consultation papers on implementation, can be found on the LSC website at www.legalservices.gov.uk.

Effective financial control

Parliamentary scrutiny

The Constitutional Affairs Select Committee examines the expenditure, policy and administration of the Ministry of Justice and associated bodies. In 2006/07 the LSC was involved in the inquiry *Implementation of the Carter Review of Legal Aid*.

On 17 January 2007 Carolyn Regan, Chief Executive and Richard Collins, Executive Director for Policy were called to give evidence before the Committee. There was another hearing on 20 February involving the Right Honorable Lord Falconer of Thoroton QC, the then Lord Chancellor and Secretary of State, Sir Michael Bichard, the Commission Chair, and Carolyn Regan. The Government's response to the inquiry was published in June 2007.

Also during 2006/07 the National Audit Office, the LSC's external auditors, published a value for money report on the use of mediation in family breakdown cases.

On 12 March 2007 Carolyn Regan and Richard Collins appeared as witnesses before the Committee of Public Accounts to discuss the report and our draft action plan.

The findings of the NAO report complemented the LSC's family legal aid strategy and have informed an action plan to further improve the success that mediation services can have for clients.

The LSC welcomes such Parliamentary scrutiny and the recommendations are used to inform our policy decisions.

Criminal means testing

The CDS Act 2006, which came into effect on 2 October 2006, introduced a new means testing scheme for defendants applying for criminal legal representation in the magistrates' courts. This reflects the belief that those defendants who can afford to pay for their defence should do so.

If a defendant is not financially eligible under the new scheme and so pays their defence costs privately, they may on acquittal recover their legal costs from central funds.

The Act also transfers authority for granting criminal legal aid from the courts to the LSC. A Service Level Agreement was signed between the Commission, the then Department for Constitutional Affairs and Her Majesty's Courts Service to govern this work.

Controlling Very High Cost Cases (VHCCs)

The LSC aims to help more people by controlling case costs, and historically a disproportionate amount has been spent on the highest cost cases.

Civil cases

To help control expenditure, the LSC manages civil cases where the costs are likely to exceed £25,000 under individual case contracts. During 2006/07 we contracted 885 new VHCCs, and 738 cases were completed. This brings the number of ongoing cases to 2,174 as at 31 March 2007, compared with 2,027 as at 31 March 2006.

In 2006/07 we authorised payment of £69m for VHCCs funded under the Access to Justice Act 1999 against a projected spend of £58m. £70m was spent on individual cases and £0.8m recovered on multi-party actions. This is a saving of £10m in cash spend compared with the historic spend rate on high cost cases. Most importantly £131m in damages was secured for legal aid clients.

The increase in spend in 2006/07 was due to an increase in the number of family and Children Act cases approved since 2002/03. Approval has been obtained from the Lord Chancellor by way of a revised budget direction for £72m.

In order to apply greater controls, in December 2006 the LSC brought back under case plan those family and Children Act cases where a Queen's Counsel was not instructed. Case plans provide justified and realistic cost estimates for the LSC and enable us to monitor the case and control the costs, helping us to achieve the best possible value for money.

In the past, VHCCs have had a tendency to take five to ten years to litigate. There are still some ongoing cases where costs have exceeded £25,000 which began being funded under the Legal Aid Act 1988. If a civil case is successful, the costs are recovered from the opponents. During 2006/07 we recovered £8m net on individual cases and £2.3m on multi-party actions under the Legal Aid Act 1988. £207m in damages was secured for legal aid clients.

Criminal cases

The LSC manages individual case contracts on all Very High Cost Criminal Cases (VHCCCs) for trials lasting 41 days or over. As for civil, the costs are agreed between the LSC and service providers at each key stage of the case.

In 2006/07 the LSC contracted 419 VHCCCs, compared to 414 in 2005/06. The LSC spent £105m on VHCCCs in 2006/07 compared to £103m in the previous year. There was an underlying increase in spend as the case portfolio reached its full running rate. There was also a rise in the spend on terrorism cases of £5m. These increases were partially offset by the reduced spend on 25 to 40 day cases, which we stopped contracting in mid-2004.

Contracting for VHCCCs has reduced spend on these cases by an estimated £49m per year compared to the previous 'after the event' assessment scheme by reducing the average cost of cases. There was an additional £5m saving on the cases entering into the extended graduated fee scheme.

Legal Aid Reform: the Way Ahead recommended forming a specialist panel of defence teams made up of litigators and advocates by a best value tender process. The panel would have exclusive access to managing these high cost cases. At present any firm with a General Criminal Contract can run a VHCCC unless it is a fraud case, which has to be transferred to a member of the Specialist Fraud Panel.

Early in 2007, we issued a six-week consultation to the representative bodies that explained our plans to create a panel of providers for the largest criminal cases. The consultation paper covered the following:

- the selection criteria to take part in the tender
- the design and rules for the tender
- the relative hourly rates between different levels of fee earner and counsel
- revisions to the VHCCC contract.

We expect best value tendering to save several million pounds from the present total spend on VHCCCs of over £100m per year.



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

Corporate Priority 4

Corporate targets 2006/07

Target	Status	Progress in 2006/07
Maintain the national customer service score at 88% throughout the year	Achieved	The year-end score for the LSC as a whole was 92%. The regional office score was even higher at 94%.
Achieve the HR score of 85% throughout the year	Not achieved	We were unable to meet this target as the score slipped to 74% during the second quarter of the year. However we made significant improvements in respect of the range of activities monitored as part of this target.
Maintain the positive response to leadership staff survey questions at 45%	Achieved	Positive responses to staff survey leadership questions increased to 50%. The strongest performing areas were teamwork, line management and performance management.
All customers that have a registered charge against their property will be sent a statement informing them of their liability by 31 March 2007	Achieved	The LSC holds statutory charges on property that legal aid clients have recovered during a civil case as a way to recoup costs to the legal aid fund. We informed all customers with such a charge of their liability in 2006/07.
Increase the supplier data that we process by LSC online to 136,250 by 31 March 2007	Achieved	The year-end figure was 140,717, so we exceeded the target by 4,467. Online processing means that providers receive a better level of service and are also better placed for roll-out of the Preferred Supplier scheme.

Project milestones 2006/07

Milestone	Status	Progress in 2006/07
Delivery transformation business case completed by June 2007	Changed	The Commission is expected to sign off the business case for the Organisation Transformation Programme in Summer 2007.
Organisation Transformation Programme fully implemented by April 2010	On track	The Organisation Transformation Project is on target to deliver new, simplified processes and to conduct business electronically by April 2010. We anticipate that all work will be managed in this way by 2012/13.

Organisation and people

Our successful performance this year is a result of the dedication and commitment of LSC staff and the work we have done with our partners.

As well as maintaining focus on 'business as usual', we met the challenges of the transformation programme and started to adapt the way we work, our skills and abilities to help achieve the LSC's objectives.

Over the last three years we have introduced leadership development and talent management programmes as part of an effective people strategy. Our talent management programme continues to develop members of staff identified as being senior executives of the future. The scheme was so successful in 2005/06 that it was expanded in 2006/07 to include all grades of staff. Members of the scheme are at the forefront of the transformation programme and continue to lead in a wide variety of business critical projects.

We believe that effective implementation of equalities legislation is vital to maintaining an effective and fair

organisation. The LSC aims to become a model of equalities best practice within the public sector. Our equalities annual reports are available at www.legalservices.gov.uk.

Organisation review and delivery transformation

The programme to prepare the organisation for implementation of our civil and criminal transformation programmes focuses on internal change. It will help to transform the LSC to provide the basis for the delivery of the civil and criminal reforms. This involves changing the way that we deliver legal aid to clients by embracing both new technologies and improving our relationships with providers.

During 2006/07 the majority of our targets were achieved or exceeded. A number of our targets focus on service delivery to ensure that our present systems, such as reconciliation of both contracts and unrecovered payments on account, can be closed out before we move on to new systems. A key part of the transformation that

Table 7: Complaints, compensation and PHSO cases

	2006/07	2005/06
New complaints ¹ received	1,701	2,007
Total complaints closed out	1,631	1,959
Regional further complaints ² received	58	88
Total complaints closed out	52	80
Head office complaints ³ received	423	512
Number that were not via a Member of Parliament or MoJ	191	200
Total complaints closed out	201	488
Compensation cases ⁴ received	162	226
Compensation cases decided	158	173
Compensation payments made	£113,435	£257,537
PHSO statements of complaint received	3	5
PHSO preliminary enquiries received	11	0
PHSO complaints proceeding to statutory investigations ⁵ received	25	40

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

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

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

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

5 Following a change in the PHSO's business approach, from 23 November 2006 complaints were re-categorised as preliminary enquiries or statements of complaint. Until this point all complaints were categorised as statutory investigations. Of the statutory investigations that had taken place, the PHSO found the LSC responsible for some form of maladministration in four cases. However, in most instances the LSC had already resolved the problem.

we are undertaking is to increase the ease with which the LSC interacts with legal aid providers. By the end of the financial year, 3,036 providers were using our online system to submit their claims.

Regional structure

This year we also reformed our regional structure, including our operational processing systems. This included combining the previous regions into five new regions and Wales. The new regions are London and South East, South West, Midlands, North West and North East.

Customer service and complaints

We strive to maintain the highest standards of customer service and effective complaint handling. In order to pursue this we set a target customer service score of 88% by 31 March 2007. We exceeded this target by achieving 92% at year-end.

We believe that improving the processes within the LSC is key to achieving good customer service, minimising complaints and making the LSC more responsive. In 2006/07 we shortened the period for considering civil legal aid applications, enabling providers to better meet their clients' needs and reducing the period of uncertainty for clients.

As our customer service score continues to increase, the number of complaints continues to drop, with a 15% decrease in new complaints in 2006/07 compared with 2005/06. Table 7 shows the levels of escalation in pursuing a complaint, from the numbers of complaints received to the small number referred to the Parliamentary and Health Service Ombudsman (PHSO), formerly known as the Parliamentary Commissioner for Administration. We aim to continue to improve our customer service and complaint procedures to deal with the challenges and changes in the future of legal aid.

CASE STUDY: Vanessa Bailey Talent management programme

The LSC launched the talent management programme in September 2005 and Vanessa Bailey, from the CDS Policy Team, was a successful candidate. Vanessa began her LSC career in Cambridge as a Means Assessment Supervisor and was working in Service Delivery Support when she applied for talent management. "I applied because I could see my future at the LSC and wanted to get on a fast track programme where you are able to shape your own development to help you reach your potential."

Talent management gave Vanessa the confidence to move from her rewarding job in Service Delivery Support to a new role as CDS Programme Manager. This strategic role co-ordinates the transformation programme within criminal policy. Vanessa believes the talent management programme is beneficial in many ways, "It gives you confidence, access to a wider network of people and support from the Executive Team."

Since joining the programme Vanessa has begun a three-year Masters in Public Administration at Warwick University, which is funded through the talent management budget. She has access to additional



study leave but still finds it difficult balancing study and work. "It's a bit of a logistical headache," says Vanessa, "Weekends can be spent writing essays but it is only for three years. It's hard work but I see it as an investment."

Talent management certainly is an investment by both the LSC and the individual. However it's not the only way to develop your career, "I think the programme is right for some people but there are lots of successful and talented people who aren't on it and are still accessing really valuable development opportunities throughout the business."

In 2006 talent management was opened up to all grades in the LSC and 11 people were successful in securing a place.

Financial reports 2006/07

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Directors' report 2006/07

Overview

Non-executive Commissioners and members of the Executive Team who served during 2006/07 are set out in our annual report at pages 10 to 12.

Statement of the accounts

The financial statements for the period 1 April 2006 to 31 March 2007 have been prepared in a form directed by the Secretary of State for Justice with the consent of the Treasury in accordance with paragraph 16 of Schedule 1 of the Access to Justice Act 1999 (the Act).

The Commission is required to keep separate financial statements for the Community Legal Service (CLS) Fund and the Criminal Defence Service (CDS) and for the income and expenditure of the Commission.

Significant outside interests

Registers of financial and other interests for members of the Commission and Executive Team were maintained and regularly updated throughout the year. Copies of both registers are available on the Commission's website at www.legalservices.gov.uk.

Corporate governance

The LSC's Audit Committee ensures that the LSC adheres to the highest standards of propriety in the use and stewardship of public funds and encourages proper accountability for the use of those funds. The Committee also promotes the development of internal control systems which help satisfy the Commission that the organisation will achieve its objectives and targets. During 2006/07 membership of the LSC's Audit Committee comprised:

- David Edmonds CBE (Chair)
- Tina Fahm
- Tom Jones OBE

Research and development

The LSC prides itself on tailoring its legal provisions to suit the people most in need. In order to achieve this, we commissioned the Legal Services Research Centre (LSRC)

to conduct strategic research in the civil and criminal justice field. Research projects undertaken during 2006/07 by LSRC focused on: the impact of debt advice, the money advice outreach evaluation, the delays in the youth court, and crime victims, offenders and civil justice.

The total research and development expenditure during the year amounted to £0.4m (£0.3m 2005/06) as reported in note 6 of the administration financial statements.

Equal opportunities and diversity

The LSC is committed to equality of opportunity both as an employer and in the provision of services. The LSC opposes all forms of discrimination and is committed to the principle that no job applicant or employee shall face discrimination. We do not discriminate in the promotion, training and development of staff. We value the variety of backgrounds, perspectives, values and beliefs that diversity brings and aim to be an organisation where everyone has an equal right to dignity and respect. Our employee assistance programme supports employees who have become disabled to continue their employment.

The LSC does not tolerate any practices that result in the provision of a lower standard of service to any group or individual because of unfair or unlawful discrimination. In April 2007 we were awarded the Disability Symbol meaning that we have demonstrated our commitment to employing and developing people with disabilities. Our latest equality, gender and disability schemes together with our *Equalities Annual Report* can be found at www.legalservices.gov.uk.

Reportable accidents

During 2006/07 there were 6 reportable accidents or occurrences under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995.

Pension liabilities

Details regarding the treatment of pension liabilities are set out in note 3 of the LSC administration financial statements.

Directors' report 2006/07 (continued)

The Commission's grant and loan-making powers

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

Charitable donations

During 2006/07 the Commission made charitable donations to the value of £500. This comprised of a single donation to the charity Crisis.

Timeliness in paying bills

The LSC aims to collect receipts and promptly pay all properly authorised invoices from the administration budget in accordance with the terms of contracts or within 30 days. We paid 97% of properly authorised administrative invoices within 30 days during 2006/07. We will continue to monitor payment performance on a monthly basis during 2007/08.

Except where they were governed by a relevant contract, payments from the CLS Fund and the CDS were exempt from the requirements of the Late Payment of Commercial Debts (Interest) Act 1998. However, internal targets are set for the timely payment of these bills. Details of the percentage of bills paid on time are shown below.

Auditors

Paragraph 16 of Schedule 1 to the Act provides that the Commission's external auditor is the Comptroller and Auditor General. The cost of the audit is disclosed in note 6 to the LSC administration financial statements and relates solely to statutory audit work.

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

Significant post year-end events

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

Signed for and on behalf of the Legal Services Commission

Carolyn Regan
Chief Executive
20 July 2007

Bills paid	Targets 2006/07	Performance 2006/07	Targets 2005/06	Performance 2005/06
Civil bills – taxed & assessed	8 weeks (100%)	97%	8 weeks (100%)	96%
Family Graduated Fee bills	8 weeks (100%)	99%	8 weeks (100%)	99%
Criminal non-standard fee	8 weeks (100%)	97%	8 weeks (100%)	95%

Management commentary 2006/07

Introduction

The Legal Services Commission (LSC) is a non-departmental public body responsible for the provision of legal aid in England and Wales through the Community Legal Service (CLS) and the Criminal Defence Service (CDS).

A description of our main activities during the year is set out in our annual report.

Accounting standards

The financial statements for the LSC and the CLS Fund and the CDS are prepared in accordance with the Treasury's *Government Financial Reporting Manual* and applicable accounting standards. They are in a form as directed by the Secretary of State for Justice with the approval of the Treasury.

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

Development and performance

Review of the year

During 2006/07 the LSC embarked on our most radical programme of transformation ever. Over the next three years we will significantly change the way that legal aid is administered in England and Wales and our relationships with providers of legal aid services. At the core of our transformation programme is our ongoing drive to improve the delivery of legal services to vulnerable and low-income people.

In 2006/07 legal aid funded over two million acts of assistance. This included nearly 800,000 acts of assistance delivered by CLS providers and 1.6 million by CDS providers.

We achieved 12 of our 13 corporate targets for the year and exceeded them in many areas. A detailed analysis of our performance against our targets is set out in the annual report.

For 2007/08 we have set ourselves a new performance framework which directly links our work to the ministerial priority of legal aid transformation. Our corporate targets now include objectives for change as well as 'business as usual' so that we ensure that there is a balance between our day-to-day operations and the transformation programme. Key Performance Indicators will support the targets and define what success looks like for each target.

Our *Corporate Plan 2007/08 – 2009/10* sets out our targets for 2007/08 and can be found at www.legalservices.gov.uk. The corporate plan also details our strategic objectives and the activities that we will undertake in order to achieve them.

Forward look

Legal aid transformation is specifically about maximising access to legal aid for the future. By achieving best value for money and rebalancing the overall budget to provide more funding for civil work, we can continue to increase the numbers of people helped. The transformation programme is a natural progression, building on the successful introduction of fixed fees in areas of both civil and crime work so far, and on our strategy for the CLS which focuses on shaping services around clients' needs. This has already produced significant results: the number of acts of early civil legal advice has risen by more than a third in two years, from nearly 600,000 in 2004/05 to just under 800,000 in 2006/07 at no extra cost. It is no coincidence that this is the same period in which Tailored Fixed Fees have been in place for much of this work.

By 2010/11 we will be a very different organisation, meaning changes for everyone who works for us. Our People Strategy will oversee these changes to make sure we have the right people, with the right skills, in the right place at the right time.

We want to transform the way that we work so that in the future we will deal with quality providers, with whom we have an open and transparent business relationship. The Preferred Supplier scheme will help us fundamentally transform our relationships with our providers.

Management commentary 2006/07 (continued)

Financial review 2006/07

Administration

Total administration expenditure for 2006/07, including service level agreements with the Courts Service, was £102.0m.

The spend this year has been controlled throughout a period of major change. The Commission has embarked on a transformation programme in order to deliver a more efficient service. The full costs of the first part of the programme, including the successful relocation of the London regional office and the setting-up of the Newcastle national filing centre, are included in the 2006/07 administration expenditure. As part of the transformation programme we are committed to reducing our headcount and headcount fell by 7% from the previous year. Managing the transformation process, including the further reduction in headcount, while maintaining our programme of work is an ongoing challenge that is being closely managed by the Executive Team.

The administration budget figure, agreed with the Ministry of Justice (MoJ), is £116.8m for 2007/08. The budget includes immigration administration costs as well as amounts under service level agreements with the Courts Service for granting magistrates' court representation orders, means assessment, and for processing claims in the Crown Court. The forecast increase in expenditure is short-term and is necessary in order for us to complete our demanding programme of transformation.

CLS Fund and CDS

CLS

Against a corporate plan forecast of £844m for the CLS, the financial accounts show an actual CLS spend of £478m. However, the financial accounts include a £350m provision release for old cases. Adjusting for this, the CLS financial accounts show a £16m under spend, a variance of less than 1.9% from the forecast.

This minor variance results mainly from personal injury claims being lower than forecast.

We are expecting Civil Representation expenditure to increase in 2007/08 due to continuing pressures around the Special Children's Act and Private Law Children categories. *Legal Aid Transformation: the Way Ahead*, published in November 2006, subsumed the Child Care Review and proposes a fixed fee scheme for family work. This is due to be implemented in October 2007 and is designed to control the ongoing pressure on our expenditure.

Immigration

Immigration operating expenditure shows an increase over last year. In 2005/06 we released provision held against old cases. Allowing for provision movements the 2006/07 operating expenditure shows a small decrease from 2005/06.

There is some uncertainty in quantifying the effect on legal aid of the current backlog of immigration and asylum cases at the Home Office. However, if intake volumes are in line with expectations we expect Single Asylum Fund expenditure for 2007/08 to be as set out in the *Corporate Plan 2007/08 – 2009/10*.

CDS

The CDS financial accounts show a total spend of £1,199m against a corporate plan forecast of £1,191m, a variance of less than 0.7%. A number of initiatives, including the Crown Prosecution Service's charging initiative, efficiency savings around ineffective trials and the reintroduction of means testing have all contributed to the year on year drop in operating expenditure.

The largest impact on expenditure in 2007/08 will be the full-year effect of the reintroduction of means testing in the magistrates' court. The continuing savings from reducing the cost of 'Cracks and Guilties' (cases which are resolved before going to trial) will also contribute to controlling the expenditure in 2007/08.

Management commentary 2006/07 (continued)

Going concern

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

Environmental, social and community matters

LSC staff are able to participate in the Give As You Earn payroll-giving scheme, meaning that any employee can donate tax-free to any charitable organisation in the UK (including places of worship) directly from their payroll. This has earned us a Bronze Award from the Institute of Fundraising's Quality Mark scheme.

Our *Employee Volunteering Policy* enables LSC employees to take a maximum of 42 hours a year as paid time off to devote to voluntary work. The Policy also invites staff who need to raise money in order to undertake their chosen activity to apply for sponsorship from the Commission. Some examples of activities undertaken by staff in 2006/07 include participating in weekly literacy support in a local primary school, working for Race on the Agenda, a social policy think tank that works with London's Black, Asian and minority ethnic communities and working as an Independent Monitoring Board member, ensuring proper standards of care in Brixton Prison. Teams of staff have also been involved in activities with the National Trust and the London Better Together Campaign.

The LSC is committed to reducing our impact on the environment. As part of their *Code of Best Practice*, Commissioners have a responsibility for ensuring that the Commission operates sound environmental policies through a strategy developed in accordance with the Government's policy for *Greening Government Operations*. We held an Environmental Awareness Day in March 2007 to officially launch our newly formed National Environmental Team. There are also Green Teams across our regional offices. The LSC has an *Environmental Policy and Strategy* that is reviewed regularly, available at

www.legalservices.gov.uk. We recycle paper and have recycling bins in all offices and we use videoconferencing to cut down on transport. At Christmas we had a national drive to encourage staff to recycle their Christmas cards.

Employee involvement

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

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

Managers hold regular section and team meetings to communicate the LSC's objectives to all staff, where everyone can ask questions and give their views. These meetings include discussion of the *Core Brief*, a short summary of key, high-level corporate news. The briefing session gives staff the chance to discuss and ask questions about organisational issues and to find out what this information means for them.

As the organisation undergoes a significant period of transformation, the Executive Team and the Chief Executive have kept staff updated with briefings face-to-face or via videoconferencing and posted regular updates on the staff intranet.

Management commentary 2006/07 (continued)

Management of CLS and CDS resource

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

Contributions for civil legal aid

Before civil legal aid is granted, applicants' financial means are tested. If they have sufficient money, they may be expected to contribute to the cost of their case. In 2006/07, 13% of all certificates issued required the applicant to pay a contribution compared to 14% in 2005/06. Generally, these are paid in instalments. They are shown as contributions by CLS funded clients in the appended financial statements (see note 2). The contributions, including revoked cases, receivable from CLS funded clients in 2006/07 were £24m (2005/06: £21m).

Cost recovery through cost compliance auditing

We monitor the cost of cases through auditing activities. If an audit highlights that a service provider has been over claiming, the LSC will investigate and where necessary recover the money. During 2006/07, £0.9m was identified for recovery from providers over claiming in civil Legal Help cases compared to £4.9m recovered in 2005/06. The decrease results from firms achieving better audit results and the introduction of fixed fees reducing the need to audit firms. As a result the LSC was required to carry out fewer audits compared to last year. The figure is not finalised due to audits in progress that are awaiting appeal. In the future context of the Preferred Supplier scheme and with the extension of standard fees schemes, we anticipate that Peer Review and other control techniques will replace the current way we audit.

Statutory charge and doubtful debt

When money or property is recovered or preserved during civil proceedings for which a funding (formerly legal aid) certificate has been issued, under section 9 (6) of the Legal Aid Act 1974, section 16 (6) of the Legal Aid Act 1988 and section 10 (7) of the Access to Justice

Act 1999, the LSC has a first charge on this money or property where the expenditure incurred on legal aid or Legal Help and Representation exceeds any contributions made and costs paid by the other side (see note 9 of the CLS Fund and CDS financial statements).

The balance on statutory charge debt was £257m in 2006/07 (2005/06: £241m) and is shown in note 9 of the CLS Fund and CDS financial statements.

Provision for amounts outstanding on funded cases

The effect on the operating expenditure of the release of provision on dormant cases is disclosed in note 12 of the CLS Fund and CDS financial statements. In 2006/07, £350m of provision was released that related to dormant cases (2005/06: £438m).

Special investigations

Our Special Investigations Team is responsible for conducting investigations into those legal aid applicants and service providers suspected of abusing the system. In 2006/07, our costs were reduced by £0.8m as a result of investigations into service providers (2005/06: £1.2m). This reduction on the previous year reflects an overall decrease in the level of investigative activity. This decrease however should be seen in the context of the corporate target to remove poor performing suppliers. In previous years some of those poor performing suppliers would have been the cause of investigative activity. We will continue to monitor this trend.

An estimated £2.7m was saved as a result of investigations into civil legal aid applicants. Full investigations by our investigators took place in 159 civil cases during 2006/07 and there were enquiries by special investigations accountants in a further 218 civil cases. 89% of full investigations, and 69% of accountant enquiries, led to either the client being refused funding; having funding withdrawn or an increase in the level of financial contributions payable. In addition, work carried out by the Special Investigations Team meant that:

- seven service providers had their contracts removed or limited

Management commentary 2006/07 (continued)

- three service providers were prosecuted
- three service providers were subject to disciplinary proceedings by the Law Society (now Solicitors Regulatory Authority)
- six individuals received notifications prohibiting them from performing contract work for specified periods (normally two years)
- three service providers were referred to the police
- four service providers were referred to the Law Society's Consumer Complaints Service.

Recovery of defence costs

CDS clients whose cases are considered at the Crown Court are sometimes required to pay a contribution towards their legal aid costs. This is dependent on the defendants' financial means and ability to pay. The LSC liaises closely with the courts, and where cases are referred by the Crown Court to our Special Investigations Unit (SIU) for investigation, SIU produce investigative financial reports to the court to assist them in determining the level of Recovery of Defence Costs Order (RDCO) that should be made in particular cases. During 2006/07, operating income received from RDCOs was £3.4m compared to £2.1m in 2005/06. The value of RDCOs owed to the LSC is £5.0m (see notes 2 and 9 of the CLS Fund and CDS accounts).

Contractual arrangements

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

Principal risks

The areas of activity that we consider to be high risk include:

- control of CLS Fund and CDS expenditure and the LSC's administration expenditure
- delivery of the transformation programme
- delivery of high quality legal services to meet clients' needs
- effective management of high-level relationships with the MoJ and Ministers

We continuously monitor these risks and our policy for managing risk is set out in our *Risk Management Statement*, which is available at www.legalservices.gov.uk. Our statement on internal control is set out on pages 54 to 57.

Signed for and on behalf of the Legal Services Commission

Carolyn Regan
Chief Executive
20 July 2007

Remuneration report 2006/07

Introduction

This report summarises the Legal Services Commission's (LSC) policy on remuneration as it relates to our non-executive Commissioners and Executive Team. Biographical details of Commissioners and members of our Executive Team are set out on pages 10 to 12 of the annual report.

The two principal features of this report are:

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

Details of remuneration and benefits are set out in the tables within this report. The tables on pages 51 to 53 have been subject to audit by the external auditor, the Comptroller and Auditor General, appointed under the Access to Justice Act 1999.

Pay Committee

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

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

Membership of the Pay Committee consists of three non-executive Commissioners and one independent member. The members do not have any day-to-day involvement

in the running of the LSC. The four members of the Pay Committee in 2006/07 were:

- Sir Michael Bichard (Chair, and Chair of the Commission)
- Tina Fahm
- Beryl Seaman CBE JP
- Duncan Brown¹

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

Remuneration policy

The Executive Team is the senior executive group of the Commission chaired by the Chief Executive and responsible for the day-to-day management of the organisation. All members of the Executive Team are employed on a permanent full-time basis. Dates that the Executive Team started at the Commission are set out on page 12 of the annual report.

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

¹ Independent member Duncan Brown is a leading expert on reward in the UK. He is Director of HR practice at PricewaterhouseCoopers.

Remuneration report 2006/07 (continued)

The value of salary and allowances paid to members of the Executive Team in 2006/07 is set out in Table A on page 51. The other components of Executive Team remuneration are set out below:

Bonuses

All members of the Executive Team are eligible for a bonus up to a maximum of 20% of their individual salaries as part of their terms and conditions of employment. Bonuses are based on performance for the previous financial year.

The bonus scheme places emphasis on the achievement of shared objectives. For 2006/07, achievement of each shared and individual objective is tied to a set percentage payment of 1% of the total bonus pot with a further discretionary element of up to 3%. This means there is a clear link between effort and reward, and makes achieving bonus payments more demanding. The Executive Team's performance objectives for 2006/07, both shared and individual, are linked to our corporate priorities set out in the *Corporate Plan 2006/07 – 2008/09*.

The process of assessing whether 2005/06 performance objectives were met was independently validated by the LSC's Head of Corporate Assurance. The value of the bonus for each member of the Executive Team is set out in Table A on page 51 and is based on performance for 2005/06.

Benefits in kind

As part of their remuneration package, Executive Team members are entitled to taxable benefits in kind. Benefits in kind may consist of a leased car, accommodation, reimbursement of travel expenses from home to office and subsistence. The value of benefits in kind for each member of the Executive Team is set out in Table A on page 51.

Termination

The LSC does not operate a fixed policy on termination payments outside the provisions of its early retirement and early severance scheme.

Under the terms of her contract the former Chief Executive, Clare Dodgson, was entitled to compensation in line with the LSC's early severance and early retirement arrangements (see Table A).

Pensions

Members of the Executive Team, together with all other current employees, are invited to participate in the Commission's No. 4 Staff Pension and Life Assurance Scheme upon employment with the LSC. LSC employees contribute at the rate of 6.5% of basic annual salary. The amount that the LSC contributes is determined every three years by the scheme's actuary after assessment and valuation of the scheme. The LSC's contribution in 2006/07 was 26.1% of employees' salaries. This consisted of 18.6% of normal contributions and 7.5% to eliminate the pensions funding shortfall. During 2006/07, all members of the Executive Team were in the No. 4 Scheme. The LSC's pension scheme is a final salary scheme that is contracted out of the State Second Pension, an addition to the basic state pension. Executive Team pension costs are set out in Table B on page 52.

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

Non-executive Commissioners' remuneration

The Secretary of State for Justice appoints non-executive Commissioners and determines the policy regarding their remuneration. Commissioners' remuneration is based on judicial salaries. Increases to pay are based on the average increases paid to the judiciary. Revised judicial salary levels were introduced with effect from 1 April 2006 following the recommendations of the SSRB.

Although the Secretary of State for Justice appoints non-executive Commissioners with different time commitments, all members, with the exception of the Chair, are paid salaries at the same full-time equivalent rate. In 2006/07, this rate was calculated on the basis of £340 per day after a 1% increase in

Remuneration report 2006/07 (continued)

April 2006 and a further 2.4% increase in November 2006. The remuneration for Commissioners includes reimbursement of travel expenses from home to office and the taxation paid by the Commission on those expenses. Travel expenses vary according to the geographical location, the role and the time commitment of the individual Commissioner. The value of the remuneration for each Commissioner is set out in Table C on page 53.

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

Termination arrangements

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

Appointments

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

The members of the Commission, including the Chair, during 2006/07 and details of their appointments are set out below:

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

* renewed 1 March 2007

** renewed 1 April 2003. Juliet Herzog and Anthony Edwards retired from the Commission on 31 March 2007.

Remuneration report 2006/07 (continued)

Table A: Senior employees – employment costs

	Salary and allowances 2007 £000	Bonuses 2007 £000	Benefits in kind 2007 £000	Salary and allowances 2006 £000	Bonuses 2006 £000	Benefits in kind 2006 £000
Carolyn Regan (from 25 September 2006) <i>Chief Executive</i>	91.0	-	-	-	-	-
Richard Collins <i>Executive Director for Policy</i>	114.4	15.5	-	111.1	11.0	-
David Godfrey <i>Executive Director for Corporate Services</i>	132.9	20.8	-	123.3	-	-
Mike Jeacock <i>Executive Director for Service Delivery</i>	163.5	17.0	33.9	148.9	11.3	30.8
Jonathan Lindley <i>Executive Director for Change and Organisational Transformation</i>	146.1	17.1	28.6	127.1	10.0	26.2
Brian Harvey OBE <i>Deputy/Acting Chief Executive (Acting Chief Executive from 1 June 2005 to 30 September 2006)</i>	76.4	24.1	-	153.2	12.5	-
Clare Dodgson <i>Chief Executive (to 30 June 2006)*</i>	64.3	-	-	172.1	15.9	-

* In addition, Clare Dodgson was paid £372k in compensation in line with the LSC's early severance and early retirement arrangements.

Notes

Bonuses awarded relate to performance for the 2005/06 financial year.

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

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

Remuneration report 2006/07 (continued)

Table B: Senior employees – pension costs

	Total accrued pension at age 60 at 31 March 2007 and related lump sum £000	Real movement in pension and related lump sum at age 60 £000	Cash equivalent transfer value at 31 March 2007 £000	Cash equivalent transfer value at 31 March 2006 £000	Real increase in cash equivalent transfer value £000	Employer contribution to pension account including risk benefit cover £000**
Carolyn Regan (from 25 September 2006) <i>Chief Executive</i>	3	-	12	-	-	-
Richard Collins <i>Executive Director for Policy</i>	43	1	156	143	11	30
David Godfrey <i>Executive Director for Corporate Services</i>	10	1	42	21	14	35
Mike Jeacock <i>Executive Director for Service Delivery</i>	26	1	120	96	17	43
Jonathan Lindley <i>Executive Director for Change and Organisational Transformation</i>	155	5	550	501	61	38
Brian Harvey OBE <i>Deputy/Acting Chief Executive (Acting Chief Executive from 1 June 2005 to 30 September 2006)</i>	137	2	901	845	53	219
Clare Dodgson <i>Chief Executive (to 30 June 2006)*</i>	197	(1)	985	752	288	304

* Clare Dodgson was an executive member of the Commission; executive membership of the Commission attracts no additional remuneration.

** Employer contribution is at the rate of 18.6% with an additional 7.5% paid this year towards the pension shortfall. Additional payments on behalf of Brian Harvey of £199k and Clare Dodgson of £190k were also made in the year. A one-off payment of £5m towards the pension shortfall made during 2006/07 has not been allocated against senior employees. The change in transfer value includes the effect of fluctuations in the transfer value due to factors beyond the control of the Commission, such as stock market movements. Voluntary contributions paid by senior employees and resulting in benefits are not shown. Pension benefits include a 50% spouse's pension.

Remuneration report 2006/07 (continued)

Table C: Non-executive Commissioners' remuneration

	Remuneration 2007 £000	Expenses 2007 £000	Total 2007 £000	Remuneration 2006 £000	Expenses 2006 £000	Total 2006 £000
Sir Michael Richard <i>Commissioner and Chair</i>	69	1	69	67	1	68
Angus Andrew* <i>Commissioner</i>	25	1	25	16	3	19
David Edmonds CBE <i>Commissioner</i>	30	1	30	29	1	30
Anthony Edwards <i>Commissioner</i>	22	3	24	22	2	24
Juliet Herzog <i>Commissioner</i>	30	12	42	29	16	44
Tom Jones OBE <i>Commissioner</i>	30	19	49	29	17	46
Tina Fahm* <i>Commissioner</i>	33	5	38	22	5	27
Dr Lily M Segerman-Peck* <i>Commissioner</i>	23	2	25	14	1	16
Lionel Joyce OBE <i>Commissioner</i>	29	11	40	22	10	32
Beryl Seaman CBE JP <i>Commissioner</i>	30	12	41	22	10	31
Dr David Wolfe <i>Commissioner</i>	7	-	7	3	-	3

* Three Commissioners were paid during 2006/07 for additional days worked in 2005/06: Angus Andrew (£1,809), Tina Fahm (£3,015) and Dr Lily M Segerman-Peck (£1,645).

Signed for and on behalf of the Legal Services Commission

Carolyn Regan
Chief Executive
20 July 2007

Statement on internal control 2006/07

Scope of responsibility

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

The following internal controls have been established and maintained within the LSC:

Structures

- a separation and clear distinction of the roles of Chair and Chief Executive
- an independent Commission, which comprises eleven non-executive members, including the Chair
- a non-executive Audit Committee that provides an oversight and challenge role, which is attended by representatives from the Ministry of Justice (MoJ) and the internal and external auditors
- a Finance and General Purposes Committee, which can make policy decisions in the context of financial impacts
- a Transformation Board whose members include the Chair, a Commissioner, the Chief Executive and the MoJ's Director General, Strategy which provides high level support to and scrutiny of the LSC's transformation programme
- an Executive Team member with responsibility for corporate risk – the Executive Director for Organisational Transformation
- an external, independent body as auditor.

Standards

- codes of conduct for both Commissioners and staff
- a robust anti-fraud policy and fraud response plan, which was updated during 2006/07 to reflect latest requirements and enable a more proactive rather than reactive approach to reducing fraud
- a clear risk management statement.

Processes

- an annual risk-based internal audit programme
- recognised processes for delegated financial authorities
- high standards of financial reporting
- improved financial management of administration expenditure, including Finance Managers in key business areas
- a continuous planning process and coordination of management performance and strategy reports
- effective risk management, co-ordinated by the Risk and Internal Control Steering Group.

The LSC reports quarterly to the MoJ on the management of risk. The LSC's key risk exposures are consistently reported to the MoJ and incorporated as necessary into its overarching risk schedule.

Effective communication links are maintained with the MoJ. For example:

- I attend meetings of the MoJ's Departmental Management Board, which considers updates to the LSC's key risks on a monthly basis
- the Commission's Audit Committee is attended by a representative from the MoJ and regularly reviews the effectiveness of the risk management and internal control processes
- the Audit Committee Chair attends meetings of the MoJ Audit Committee Chairs
- I, along with other members of the Executive Team, sit on the MoJ's Legal Aid Programme Board which meets bi-monthly and is chaired by the MoJ's Permanent Secretary
- the Commission's Chair meets monthly with the Secretary of State and a Minister from the MoJ attends meetings of the Commission three times per year; risk management issues are escalated to Ministers where appropriate.

Statement on internal control 2006/07 (continued)

The purpose of the system of internal control

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

Capacity to handle risk

Effective risk management is fundamental to the organisation's success. Throughout 2006/07 the LSC has been working to further embed risk management across the organisation. All identified significant risks that threaten to impact on the successful delivery of the Commission's agreed corporate and business objectives are assessed and managed. The LSC continues to be committed to embedding effective risk management mechanisms in its management processes.

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

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

- identify and assess risk
- prioritise risk

- actively manage risk
- review and report risk.

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

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

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

The risk and control framework

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

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

The business planning round is used to identify new or emerging risks and to re-assess changing risks. Risks are evaluated in terms of their impact on corporate objectives and key priorities and likelihood of occurrence.

Statement on internal control 2006/07 (continued)

An indication is provided as to how they will be managed. The priority that is given to a risk is used to inform the most appropriate response to that risk. Risks that have a high impact and high likelihood are given the highest priority.

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

- The Commission approved a revised risk management statement in April 2007 which sets out the relationship between corporate, operational and programme/project risk and how the LSC's approach fits into the MoJ's and the wider risk work across government. This was communicated to all staff via the intranet.
- The risk register is used as a source of management information and a draft risk register formed part of the planning guidance issued to all business functions to allow an opportunity for input. Managers are expected to use the risk register as a source of reference when undertaking a risk assessment of their individual business plans and review the register on a monthly basis.
- Project managers are required to maintain a project risk register in accordance with accredited methodology. These are reviewed by the Project Board and escalated to the relevant Programme Board and Transformation Board where necessary.
- Risk management concepts are incorporated, as far as is practicable, into the LSC's *Roles and Responsibilities and Competency Framework*. This aims to support the process of embedding risk management across the organisation and to strengthen the quality of performance objective setting for those responsible for managing risk within the LSC.
- The work of the LSC is joined up with government departments and representative bodies such as the Law Society through consultation and other channels of communication like strategic boards. For example, during 2006/07, I sat on the MoJ Ministerial Executive Board, as did the Chief Executive of the Courts Service.

The LSC is committed to end-to-end planning and assessment of whole system impacts and carries out a regulatory impact assessment on all new policies. In

addition, the Commission thoroughly revised its code of practice for carrying out consultations during 2006/07 which sets out a standard approach to LSC consultations with stakeholders, and includes guidance on when to consult, how long for and how to do it.

Review of effectiveness

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

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

- bi-annual reviews of corporate risk by the Commission, including approving an updated *Risk Management Statement* and a new risk register in April 2007
- quarterly reviews of risk management developments by the Audit Committee, in accordance with the recommendations in the *Audit Committee Handbook*, including continual liaison between the Risk and Internal Control Steering Group and the Audit Committee Chair
- continual oversight and drive for improvement by the Risk and Internal Control Steering Group, including contributing to discussions about the risk management structure within the LSC
- oversight of risk management at programme level by the Change Programme Board and the Transformation Board
- continuation of the quality assured environment.

Statement on internal control 2006/07 (continued)

Specific actions to support the mitigation of risks during 2006/07 included:

- streamlining the Commission's corporate and operational risk schedules to create a single risk register for the entire organisation
- beginning the legal aid transformation programme by carrying out a series of consultations with stakeholders and developing a Preferred Supplier scheme
- incorporating a risk assessment into all policy papers that are considered by the Commission
- reviewing the Audit Committee's processes in accordance with the recommendations of the revised *Audit Committee Handbook*
- minimising risk resulting from the transformation of the organisation, by maintaining good customer service and ensuring delivery of services to legal aid clients
- demonstrating effective financial control over the administration budget and continuing regular communications and analysis with the MoJ in relation to financial forecasting and budgeting
- restructuring the Commission's programme boards to focus on the Commission's programme of change including the establishment of the Transformation Board to maintain high-level oversight of the transformation programme
- mitigating senior staff gaps by appointing an Acting Executive Director for Organisational Transformation while a replacement was recruited.

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

Significant control issues identified during 2006/07

Criminal means testing

Means testing for criminal legal aid at the magistrates' courts was introduced in October 2006. The current process relies on self-certification for a number of categories of applicants for legal aid. The control framework in place needs to be strengthened to provide

sufficient assurance that only eligible applicants are receiving legal aid. The Commission is working to develop ongoing processes to address these risks consistently and these risks will be reflected in the Service Level Agreement that the Commission holds with Her Majesty's Courts Service.

Civil Legal Help

The Commission is committed to improving the quality of service providers and making the regulatory regime less onerous through the fixed fee scheme and other elements of the reform programme. As a result there is an increased risk in the interim period that some elements of civil Legal Help could be provided to ineligible recipients. The Commission will assess this risk of non-compliance by contracted service providers in the context of Peer Review and other control techniques that are in the process of being introduced, such as file assessment for both quality and value for money.

Very high cost cases

The Commission identified a control failure during 2006/07 relating to civil very high cost case spend. In instances where a QC was not instructed for a family and Children Act case, the approval of costs was delegated to the relevant regional office without the requirement of a case plan in an effort to control administrative costs. This resulted in an increase in the volume of cases being approved not being identified. Actions to correct this included:

- bringing cases, which now require case plans, back under Special Cases Unit (SCU) control in December 2006
- increasing the SCU fund budget while the funds are recovered
- excluding spend on cases approved above £25k but where the final bill does not achieve this level from the budget until the issue is resolved.

Carolyn Regan

Chief Executive
20 July 2007

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

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

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

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

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

Under paragraph 16 (1) of Schedule 1 to the Access to Justice Act 1999, the Commission is responsible for keeping the books of account and for preparing each financial year a statement of accounts. For the 2006/07 financial period, the appended financial statements have been prepared in accordance with paragraph 16 (1) of Schedule 1 to the 1999 Act and with the directions given by the Secretary of State under paragraphs 16 (2) and 16 (3) of Schedule 1 to the 1999 Act and with directions made by the Treasury relevant to their preparation.

In preparing the Commission's annual accounts the Commission is required to:

- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

Carolyn Regan

Chief Executive

20 July 2007

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

I certify that I have audited the financial statements of the Legal Services Commission's Community Legal Service Fund and Criminal Defence Service for the year ended 31 March 2007 under the Access to Justice Act 1999. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the remuneration report that is described in that report as having been audited.

Respective responsibilities of the Commission, Accounting Officer and Auditor

The Commission and Chief Executive as Accounting Officer are responsible for preparing the annual report, the remuneration report and the financial statements in accordance with the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of HM Treasury and for ensuring the regularity of financial transactions. These responsibilities are set out in the statement of the responsibilities of the Accounting Officer and of the Commission.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of HM Treasury. I report to you whether, in my opinion, certain information given in the annual report, which comprises the directors' report, the management commentary and the remuneration report, is consistent with the

financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Commission has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

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

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

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Commission and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Commission's circumstances, consistently applied and adequately disclosed.

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

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

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

Opinions

Audit opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of HM Treasury, of the state of the Commission's affairs as at 31 March 2007 and of its deficit for the year then ended;
- the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of HM Treasury; and
- information given within the annual report, which comprises the directors' report, the management commentary and the remuneration report, is consistent with the financial statements.

Audit opinion on regularity

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

Report

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

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

23 July 2007

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

For the year ended 31 March 2007

		2007	2007	2007	2006	Restated 2006	2006
	Note	CLS £000	CDS £000	Total £000	CLS £000	CDS £000	Total £000
Operating income	2	244,325	8,791	253,116	248,031	2,085	250,116
Operating expenditure	3	(734,597)	(1,199,090)	(1,933,687)	(601,059)	(1,219,103)	(1,820,162)
Operating deficit	5	(490,272)	(1,190,299)	(1,680,571)	(353,028)	(1,217,018)	(1,570,046)
Interest receivable and similar income	6	12,194	-	12,194	8,141	-	8,141
Other finance costs	7	-	13	13	-	(34)	(34)
Cost of capital charge	1 f)	34,091	19,327	53,418	47,753	18,786	66,539
Deficit for the year		(443,987)	(1,170,959)	(1,614,946)	(297,134)	(1,198,266)	(1,495,400)
Reversal of cost of capital charge	1 f)	(34,091)	(19,327)	(53,418)	(47,753)	(18,786)	(66,539)
Retained deficit for the year	13	(478,078)	(1,190,286)	(1,668,364)	(344,887)	(1,217,052)	(1,561,939)

All income and expenditure are derived from continuing operations.

Statement of recognised gains and losses for the period

For the year ended 31 March 2007

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

Prior year comparatives have been restated as explained in note 17.

The notes on pages 64 to 81 form part of these financial statements.

Community Legal Service Fund and Criminal Defence Service Balance sheet

At 31 March 2007

		2007	2007	2007	2006	2006	2006
	Note	CLS	CDS	Total	CLS	CDS	Total
		£000	£000	£000	£000	£000	£000
Fixed assets	4	31	478	509	48	582	630
Current assets							
Debtors	9	212,378	2,465	214,843	204,336	2,507	206,843
Cash at bank and in hand	8	3,140	1,678	4,818	3,046	894	3,940
		215,518	4,143	219,661	207,382	3,401	210,783
Creditors: amounts falling due within one year							
Other creditors	11	(83,791)	(17,166)	(100,957)	(65,294)	(2,926)	(68,220)
Net current assets/(liabilities)		131,727	(13,023)	118,704	142,088	475	142,563
Total assets less current liabilities		131,758	(12,545)	119,213	142,136	1,057	143,193
Provisions for liabilities and charges	12	(941,170)	(548,865)	(1,490,035)	(1,280,785)	(544,025)	(1,824,810)
		(809,412)	(561,410)	(1,370,822)	(1,138,649)	(542,968)	(1,681,617)
Capital and reserves							
Income and expenditure reserve	13	(809,412)	(561,410)	(1,370,822)	(1,138,649)	(542,968)	(1,681,617)
		(809,412)	(561,410)	(1,370,822)	(1,138,649)	(542,968)	(1,681,617)

Prior year comparatives have been restated as explained in note 17.

Carolyn Regan

Chief Executive and Accounting Officer
20 July 2007

Community Legal Service Fund and Criminal Defence Service Cash flow statement

For the year ended 31 March 2007

	Note	2007		2007	Restated		2006
		CLS £000	CDS £000	Total £000	2006 CLS £000	2006 CDS £000	Total £000
Net cash outflow from operating activities	16	(816,682)	(1,171,041)	(1,987,723)	(833,179)	(1,203,306)	(2,036,485)
Financing - grants received	13	807,315	1,171,844	1,979,159	795,975	1,204,631	2,000,606
Capital expenditure	4	10	(19)	(9)	346	(493)	(147)
Financial investment	15	9,451	-	9,451	9,182	-	9,182
Increase/(decrease) in cash		94	784	878	(27,676)	832	(26,844)

Prior year comparatives have been restated as explained in note 17.

The notes on pages 64 to 81 form part of these financial statements.

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

For the year ended 31 March 2007

Note 1 - Statement of accounting policies

These financial statements are prepared in accordance with the Treasury's *Government Financial Reporting Manual* and applicable accounting standards. They are in a form as directed by the Secretary of State for Justice with the approval of the Treasury.

The following accounting policies have been applied consistently in dealing with items considered material in relation to the financial statements except for the treatment of grants as explained in note 17.

a) Accounting convention

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

b) Tangible fixed assets

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

c) Depreciation

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

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

Assets under construction are not depreciated until they have been completed. On completion assets are transferred to their relevant category and depreciated over their estimated useful lives.

d) Income and expenditure

Income comprises contributions receivable from funded clients. Income also includes amounts receivable from funded clients and others for costs and, where appropriate, damages awarded. Expenditure comprises sums payable to legal aid service providers for services provided to funded clients, refunds of contributions to funded clients, costs awarded to other parties and other costs associated with the provision of legal advice and assistance. Sums payable include the estimated value of the work completed by legal aid service providers not yet billed. Grants received from third parties are recognised as income when the related expenditure is incurred.

e) Grant receivable

Grant receivable for revenue purposes or for the acquisition of general fixed assets is accounted for as financing and credited directly to the income and expenditure reserve.

f) Cost of capital charge

As required by the Treasury a charge is made to the income and expenditure account for the notional cost of capital. The notional capital charge, which reflects the cost of financing capital employed, is calculated at 3.5% (2006: 3.5%) of average net assets employed during the year. In accordance with Treasury guidance the notional charge is reversed out of the income and expenditure account before determining the retained surplus or deficit for the year. As the Commission has net liabilities a negative charge applies.

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

For the year ended 31 March 2007

Note 1 - Statement of accounting policies (*continued*)

g) Liquid resources

All liquid resources are in the form of cash.

h) Provisions

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

Provision is made for estimated dilapidation costs on leasehold buildings. The provision has been estimated with reference to the condition and location of the buildings and discounted at 2.2% (2006: 2.2%).

i) Provision for doubtful debts

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

j) Operating leases

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

k) Accounting for value added tax

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

l) Deposit accounts for funded clients

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

The movement in third party funds is reported in note 23 to these accounts.

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

m) Going concern

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

The future financing of the Commission's liabilities is met by grants from the Ministry of Justice voted on by Parliament annually under the relevant Appropriation Act.

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

For the year ended 31 March 2007

Note 2 - Operating income

	2007			Restated 2006		
	CLS	CDS	Total	CLS	CDS	Total
	£000	£000	£000	£000	£000	£000
Civil representation						
Contributions by funded clients	23,506	-	23,506	21,185	-	21,185
Costs recoverable	136,762	-	136,762	165,667	-	165,667
Recoveries from damages and statutory charge	83,595	-	83,595	60,576	-	60,576
	243,863	-	243,863	247,428	-	247,428
Civil Legal Help						
Grants received from third parties	203	-	203	318	-	318
Costs recoverable	259	-	259	285	-	285
	462	-	462	603	-	603
Criminal cases						
Costs recoverable	-	115	115	-	5	5
Recovery of defence costs orders	-	3,419	3,419	-	2,080	2,080
Wasted cost orders	-	5,257	5,257	-	-	-
	-	8,791	8,791	-	2,085	2,085
	244,325	8,791	253,116	248,031	2,085	250,116

Prior year comparatives have been restated as explained in note 17.

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

For the year ended 31 March 2007

Note 3 - Operating expenditure

	2007		2007		Restated	
	CLS	CDS	Total	2006	2006	2006
	£000	£000	£000	CLS £000	CDS £000	Total £000
Civil representation						
Solicitors' charges, counsel fees and disbursements	753,877	-	753,877	774,993	-	774,993
Refund of contributions	2,794	-	2,794	5,072	-	5,072
Costs of successful unassisted parties	1,159	-	1,159	1,685	-	1,685
Miscellaneous	19	-	19	7	-	7
	757,849	-	757,849	781,757	-	781,757
Release of provision on dormant cases	(350,000)	-	(350,000)	(438,004)	-	(438,004)
	407,849	-	407,849	343,753	-	343,753
Civil Legal Help						
Solicitors' charges, counsel fees and disbursements	168,306	-	168,306	162,472	-	162,472
Grants and similar	23,570	-	23,570	24,368	-	24,368
	191,876	-	191,876	186,840	-	186,840
Immigration and asylum						
Solicitors' charges, counsel fees and disbursements	93,951	-	93,951	70,281	-	70,281
Public Immigration Legal Services	157	-	157	58	-	58
Grants and similar	397	-	397	97	-	97
	94,505	-	94,505	70,436	-	70,436

Prior year comparatives have been restated as explained in note 17.

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

For the year ended 31 March 2007

Note 3 - Operating expenditure (*continued*)

	2007		2007 Total £000	Restated		2006 Total £000
	2007 CLS £000	2007 CDS £000		2006 CLS £000	2006 CDS £000	
	Criminal cases					
Solicitors' charges, counsel fees and disbursements - Crime Higher	-	670,485	670,485	-	693,692	693,692
Solicitors' charges, counsel fees and disbursements - Crime Lower	-	525,234	525,234	-	517,963	517,963
Public Defender Service	-	4,587	4,587	-	4,392	4,392
Duty solicitor call service	-	3,497	3,497	-	3,007	3,007
	-	1,203,803	1,203,803	-	1,219,054	1,219,054
Bad debts written off and movement in doubtful debt provision (note 10)	40,367	(4,713)	35,654	30	49	79
	734,597	1,199,090	1,933,687	601,059	1,219,103	1,820,162

Figures for the Public Defender Service (PDS) and for the Public Immigration Legal Service (PILS) include the depreciation charge and loss on disposal for capital items. Note 4 shows the PDS and CLS fixed assets along with the amount provided for depreciation in the year.

Note 4 - Tangible fixed assets

Community Legal Service

	Fixtures and fittings £000	Furniture and equipment £000	Computer equipment £000	Total £000
Cost at 1 April 2006	9	12	40	61
Additions	-	-	5	5
Disposals	(9)	-	(6)	(15)
Cost at 31 March 2007	-	12	39	51
Depreciation at 1 April 2006	1	-	12	13
Charged in year	1	2	8	11
Disposals	(2)	-	(2)	(4)
Depreciation at 31 March 2007	-	2	18	20
Net book value at 31 March 2007	-	10	21	31
Net book value at 31 March 2006	8	12	28	48

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

For the year ended 31 March 2007

Note 4 - Tangible fixed assets (*continued*)

Criminal Defence Service

	Assets under construction £000	Fixtures and fittings £000	Furniture and equipment £000	Computer equipment £000	Total £000
Cost at 1 April 2006	-	1,044	117	223	1,384
Additions	141	6	8	-	155
Disposals	-	(116)	(8)	(12)	(136)
Cost at 31 March 2007	141	934	117	211	1,403
Depreciation at 1 April 2006	-	619	49	134	802
Charged in year	-	194	22	25	241
Disposals	-	(102)	(5)	(11)	(118)
Depreciation at 31 March 2007	-	711	66	148	925
Net book value at 31 March 2007	141	223	51	63	478
Net book value at 31 March 2006	-	425	68	89	582

All CDS assets relate to the PDS.

Note 5 - Operating deficit

	2007 CLS £000	2007 CDS £000	2007 Total £000	2006 CLS £000	2006 CDS £000	2006 Total £000
Operating deficit is stated after charging the following:						
Operating leases	-	493	493	-	390	390

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

Note 6 - Interest receivable

	2007 CLS £000	2007 CDS £000	2007 Total £000	2006 CLS £000	2006 CDS £000	2006 Total £000
Interest arising on statutory charges	12,194	-	12,194	8,141	-	8,141

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

For the year ended 31 March 2007

Note 7 - Other finance costs

	2007 CLS £000	2007 CDS £000	2007 Total £000	2006 CLS £000	2006 CDS £000	2006 Total £000
Discount on provisions	-	(13)	(13)	-	34	34

Note 8 - Analysis of net debt

	CLS £000	CDS £000	Total £000
Cash at bank and in hand			
At 1 April 2006	3,046	894	3,940
Cash flows	94	784	878
At 31 March 2007	3,140	1,678	4,818

Note 9 - Debtors

	2007 CLS £000	2007 CDS £000	2007 Total £000	2006 CLS £000	2006 CDS £000	2006 Total £000
Contributions due from funded clients	21,690	-	21,690	19,770	-	19,770
Costs to be recovered	18,155	-	18,155	19,316	-	19,316
Statutory charge	256,526	-	256,526	240,782	-	240,782
Damages	12,459	-	12,459	15,289	-	15,289
Amounts due from service providers	79,729	502	80,231	60,019	7,941	67,960
Recovery of defence costs orders	-	4,970	4,970	-	2,412	2,412
Other debtors	-	-	-	197	-	197
Amounts due from the Legal Services Commission	28	6	34	-	259	259
	388,587	5,478	394,065	355,373	10,612	365,985
Provision for doubtful debts (note 10)	(176,209)	(3,013)	(179,222)	(151,037)	(8,105)	(159,142)
	212,378	2,465	214,843	204,336	2,507	206,843

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

For the year ended 31 March 2007

Note 9 - Debtors (*continued*)

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

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

The gross amounts secured by a charge against property were:

	2007 CLS £000	2007 CDS £000	2007 Total £000	2006 CLS £000	2006 CDS £000	2006 Total £000
Statutory charge on damages	204,836	-	204,836	191,836	-	191,836
Accrued interest to date	51,689	-	51,689	48,946	-	48,946
	256,526	-	256,526	240,782	-	240,782

Debts secured by a charge may be deferred until the property has been sold. Most of the debts are most likely to be paid after one year however it is not possible to state what value is due for repayment in more than one year.

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

For the year ended 31 March 2007

Note 10 - Doubtful debt provision

	2007 CLS £000	2007 CDS £000	2007 Total £000	2006 CLS £000	2006 CDS £000	2006 Total £000
At 1 April 2006	151,037	8,105	159,142	164,573	8,294	172,867
Debts written off	(15,195)	(379)	(15,574)	(13,566)	(238)	(13,804)
Irrecoverable contributions from funded clients	11,034	2,295	13,329	6,543	92	6,635
Irrecoverable costs	2,504	-	2,504	4,737	-	4,737
Other provision movements	26,829	(7,008)	19,821	(11,250)	(43)	(11,293)
Charge to income and expenditure account	40,367	(4,713)	35,654	30	49	79
At 31 March 2007	176,209	3,013	179,222	151,037	8,105	159,142

Note 11 - Creditors

	2007 CLS £000	2007 CDS £000	2007 Total £000	2006 CLS £000	2006 CDS £000	2006 Total £000
Amounts falling due within one year						
Other creditors						
Amounts due to solicitors, counsel and advice agencies	82,538	17,063	99,601	62,379	2,834	65,213
Contribution refunds due to funded clients	-	-	-	273	-	273
Amounts due to the Legal Services Commission	244	20	264	1,273	-	1,273
Accruals and deferred income	976	83	1,059	1,369	92	1,461
Other creditors	33	-	33	-	-	-
	83,791	17,166	100,957	65,294	2,926	68,220

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

For the year ended 31 March 2007

Note 12 - Provisions for liabilities and charges

	CLS £000	CDS £000	Total £000
Provision for amounts outstanding on funded cases			
At 1 April 2006	1,280,785	543,777	1,824,562
Additions and increases to provision	1,016,134	1,195,719	2,211,853
Amounts used in the period	(1,005,749)	(1,191,562)	(2,197,311)
Unused amounts reversed in the period	(350,000)	-	(350,000)
At 31 March 2007	941,170	547,934	1,489,104
Provision for dilapidations			
At 1 April 2006	-	248	248
Additions and increases to provision	-	186	186
Amounts used in the period	-	-	-
Unused amounts reversed in the period	-	(17)	(17)
Finance charges	-	(13)	(13)
At 31 March 2007	-	404	404
Provision for restructuring			
At 1 April 2006	-	-	-
Additions and increases to provision	-	527	527
Amounts used in the period	-	-	-
Unused amounts reversed in the period	-	-	-
At 31 March 2007	-	527	527
At 31 March 2007	941,170	548,865	1,490,035
At 31 March 2006	1,280,785	544,025	1,824,810

The Legal Services Commission estimates the value of unbilled live cases each year to arrive at the amounts disclosed within the accounts as a provision. The amount is an estimate of the expenditure required to settle any obligation at the balance sheet date following the requirements of FRS 12 *Provisions, contingent liabilities and contingent assets*. In estimating the provision, the Commission has adopted prudent measurement techniques based on the latest data available. Improved data capture techniques have been utilised in the Commission's estimate for the current year. No income is anticipated for cases that may successfully recover costs.

The dilapidations provision relates to leasehold premises occupied by the PDS. The costs are expected to be incurred between 2007 and 2019 as the leases expire.

The provision for restructuring relates to the closure of PDS offices announced on 21 March 2007. The costs are expected to be incurred between April 2007 and March 2008.

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

For the year ended 31 March 2007

Note 13 - Income and expenditure reserve

	CLS £000	CDS £000	Total £000
At 1 April 2006	(1,138,697)	(543,550)	(1,682,247)
Effect of change in accounting policy (transfer from government grant reserve)	48	582	630
Adjusted opening balance	(1,138,649)	(542,968)	(1,681,617)
Retained deficit for the year	(478,078)	(1,190,286)	(1,668,364)
Grants received	807,315	1,171,844	1,979,159
At 31 March 2007	(809,412)	(561,410)	(1,370,822)

Note 14 - Government grant reserve

	CLS £000	CDS £000	Total £000
At 1 April 2006	48	582	630
Effect of change in accounting policy (transfer to income and expenditure reserve)	(48)	(582)	(630)
At 31 March 2007	-	-	-

Note 15 - Financial investment

	2007 CLS £000	2007 CDS £000	2007 Total £000	2006 CLS £000	2006 CDS £000	2006 Total £000
Interest received	9,451	-	9,451	9,182	-	9,182

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

For the year ended 31 March 2007

Note 16 - Reconciliation of operating deficit to net operating cash flows

	2007			2006		
	CLS	CDS	Total	CLS	CDS	Total
	£000	£000	£000	£000	£000	£000
Operating deficit	(490,272)	(1,190,299)	(1,680,571)	(353,028)	(1,217,018)	(1,570,046)
Depreciation charges, profit and loss on disposals	7	123	130	(12)	250	238
Other finance charges	-	13	13	-	(34)	(34)
(Increase)/decrease in debtors	(5,299)	42	(5,257)	6,500	(1,386)	5,114
Increase/(decrease) in creditors	18,497	14,240	32,737	10,696	(2,198)	8,498
(Decrease)/increase in provisions	(339,615)	4,840	(334,775)	(497,335)	17,080	(480,255)
Net cash outflow from operating activities	(816,682)	(1,171,041)	(1,987,723)	(833,179)	(1,203,306)	(2,036,485)

Prior year comparatives have been restated as explained in note 17.

Note 17 - Prior year adjustment

There has been a change in accounting policy in the following areas as a result of the revision of the *Government Financial Reporting Manual* for 2006/07.

Grants received for revenue purposes or for the acquisition of general fixed assets are regarded as a form of financing and no longer as income. They are therefore credited directly to the income and expenditure reserve.

The change in accounting policy has required a restatement of prior year comparatives. The effect of the prior year adjustment is set out below:

	2006		
	CLS	CDS	Total
	£000	£000	£000
Income and expenditure account			
Operating income			
As previously reported	1,044,340	1,206,475	2,250,815
Prior year adjustment	(796,309)	(1,204,390)	(2,000,699)
As restated	248,031	2,085	250,116

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

For the year ended 31 March 2007

Note 17 - Prior year adjustment *(continued)*

	2006 CLS £000	2006 CDS £000	2006 Total £000
Balance sheet			
Reserves			
The effect of the prior year adjustment has been disclosed in notes 13 and 14.			
Statement of recognised gains and losses			
As previously reported	(334)	241	(93)
Prior year adjustment	334	(241)	93
As restated	-	-	-
Cashflow statement			
Net cashflow from operating activities			
As previously reported	(37,204)	1,325	(35,879)
Prior year adjustment	(795,975)	(1,204,631)	(2,000,606)
As restated	(833,179)	(1,203,306)	(2,036,485)
Financing			
As previously reported	-	-	-
Prior year adjustment	795,975	1,204,631	2,000,606
As restated	795,975	1,204,631	2,000,606

Note 18 - Going concern

The balance sheet at 31 March 2007 shows an excess of liabilities over assets of £1,371m.

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

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

For the year ended 31 March 2007

Note 19 - Contingent liabilities

A provision is made for amounts outstanding on funded cases at the balance sheet date. The Commission recognises that there is a continuing obligation to fund cases past the balance sheet date but the amount of the liability is dependent on the future outcome of each case. It is estimated that this liability is in the order of £1,486m (31 March 2006: £1,800m).

Note 20 - Commitments under operating leases

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

	2007 CLS £000	2007 CDS £000	2007 Total £000	2006 CLS £000	2006 CDS £000	2006 Total £000
Operating leases which expire:						
Within one year - land and buildings	-	-	-	-	11	11
Within one year - other	-	2	2	-	1	1
Between two to five years - land and buildings	-	35	35	-	35	35
Between two to five years - other	-	20	20	-	45	45
Over five years - land and buildings	-	259	259	-	259	259
	-	316	316	-	351	351

Operating leases shown in this note relate to the PDS.

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

For the year ended 31 March 2007

Note 21 - Related party transactions

The Legal Services Commission is a non-departmental public body sponsored by the Ministry of Justice. The Ministry of Justice is regarded as a related party. During the year, the Commission had various material transactions with the Ministry of Justice. The Commission has also had various material transactions with Her Majesty's Courts Service, an agency of the Ministry of Justice, relating to work provided by the Courts Service on behalf of the Commission.

The Commission has declared below any immediate connection between the Community Legal Service Fund or the Criminal Defence Service and Ministry of Justice ministers or their close family, or the organisations with which the ministers or their close family are associated. During 2006/07, the Commission entered into a number of material transactions with some Commissioners, other related parties or their close family members. These transactions are also detailed below.

Unless otherwise stated, the disclosures relate to transactions in respect of funded work and do not reflect an individual's earnings. The figures include payments on account and disbursements which may be payable to third parties and are stated inclusive of VAT, as this is a cost to the Commission. All transactions are for the period 1 April 2006 to 31 March 2007 unless otherwise stated. The transactions do not include payments received indirectly (e.g. counsel fees claimed by the solicitors which they then pay to counsel). The transactions do not reflect annual earnings as they might include fees for work carried out in previous years but not billed until this financial year; they may also exclude fees for work carried out in 2006/07 but not yet billed.

Commissioners are required under the *Code of Best Practice for Legal Services Commission Members* to declare any personal, financial and business interests which may conflict with their duties on the Commission. Members may not participate in Commission discussions or decisions on policy or financial matters where a conflict of interest arises.

Ministry of Justice ministers and related parties

Lord Falconer	The Legal Services Commission is continuing payments to Marianna Hildyard, a barrister who receives payments in respect of legal aid casework. Ms Hildyard is married to Lord Falconer, the then Lord Chancellor and Secretary of State.	£157,057
Harriet Harman	(1) Harman and Harman is a legal services contracted firm of solicitors in which Sarah Harman is a senior partner. Sarah Harman is a sister of Harriet Harman, who was Legal Aid Minister from 1 April until 4 May 2006 and had a deputising role for legal aid for the rest of the financial year.	£352,266
	(2) Denniss Matthews is a legal services contracted firm of solicitors in which Virginia Harman is head of the family law department. Virginia Harman is a sister of Harriet Harman, who was Legal Aid Minister from 1 April until 4 May 2006 and had a deputising role for legal aid for the rest of the financial year.	£46,110

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

For the year ended 31 March 2007

Note 21 - Related party transactions (*continued*)

Commissioners and related parties

Angus Andrew	Osbornes is a legal services contracted firm of solicitors to which Angus Andrew was a non-practising consultant.	£86,464 1 to 10 April 2006
Anthony Edwards	T.V. Edwards is a legal services contracted firm of solicitors of which Anthony Edwards is the senior partner.	£2,457,255
Dr David Wolfe	David Wolfe is a barrister who receives payments in respect of legal aid casework.	£171,648

Chief Executive and related parties

Carolyn Regan (from September 2006)	Hickman and Rose is a legal services contracted firm of solicitors in which Gillian Self is an HR Manager. Gillian Self is a sister of Carolyn Regan, LSC Chief Executive.	£822,678 25 September 2006 to 31 March 2007
--	--	---

Note 22 - Financial instruments

FRS 13 *Derivatives and other financial instruments: disclosures* requires disclosure of the role that financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities. The Commission has limited exposure to risk in relation to its activities but it does utilise financial instruments to manage interest rate movements for damages held on deposit for third parties. Details explaining the risks and how they are managed are provided below under 'interest rate risk'. As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from this disclosure note.

Liquidity risk

The Commission is financed by a grant received from the Ministry of Justice. As such, it is not exposed to significant liquidity risks.

Interest rate risk

Money received by the Community Legal Service Fund on behalf of funded clients is held on deposit until the case is concluded. Interest is paid to funded clients by reference to the London Inter Bank Offered Rate (LIBOR). To offset the interest payable, £30.6m of the total deposit account balance is held with Barclays Bank PLC and managed under the Liquidity Plus Fund and Libor Plus Fund and the balance held as cash. Funds are available at 24 hours' notice. The rate earned by these instruments may fluctuate and differ from the rate paid out which is based on LIBOR. However, the short maturity period of the instruments limits any risk arising from adverse rates earned.

The Commission is not exposed to other significant interest rate risks.

Foreign currency risk

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

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

For the year ended 31 March 2007

Note 22 - Financial instruments (*continued*)

Financial assets

	Fixed rate financial assets £000	Floating rate financial assets £000	Total £000	Weighted average interest rate
Currency				
Sterling	-	4,818	4,818	4.2%
At 31 March 2007	-	4,818	4,818	4.2%
Currency				
Sterling	-	3,940	3,940	4.1%
At 31 March 2006	-	3,940	3,940	4.1%

Financial liabilities

	Fixed rate financial liabilities £000	Financial liabilities on which no interest is paid £000	Total £000	Weighted average interest rate
Currency				
Sterling	404	1,489,104	1,489,508	2.2%
At 31 March 2007	404	1,489,104	1,489,508	2.2%
Currency				
Sterling	248	1,824,562	1,824,810	2.2 %
At 31 March 2006	248	1,824,562	1,824,810	2.2 %

Fair values

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

Cash at bank and in hand

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

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

For the year ended 31 March 2007

Provisions for liabilities and charges

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

Note 23 - Third party assets

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

	31 March 2006 £000	Gross inflows £000	Gross outflows £000	31 March 2007 £000
Third party assets	34,270	18,102	(19,988)	32,384

The Commission receives awarded damages awaiting the final settlement of a case. The assets held at the balance sheet date comprise pooled investment funds and cash as follows:

	31 March 2007 £000	31 March 2006 £000
Cash	1,746	1,328
Certificates of deposit	-	32,942
Pooled investment funds	30,638	-
	32,384	34,270

Note 24 - Accountability notes

Losses statement

There were 10,780 (2006: 11,683) cases involving losses totalling £15.6m (2006: £13.8m) (see note 10). Losses include a debt write-off of £286,362 relating to one firm of solicitors.

Note 25 - Post balance sheet events

Post balance sheet events have been considered up to 24 July 2007. On 29 March 2007 the Government announced its intention to transfer the work of the Department for Constitutional Affairs, including that relating to publicly funded legal services, to a new Ministry of Justice. The changes came into effect on 9 May 2007.

On 28 June 2007 Jack Straw was appointed Lord Chancellor and Secretary of State for Justice. On 29 June 2007 Lord Philip Hunt OBE replaced Vera Baird QC MP as Parliamentary Under Secretary of State with responsibility for the legal aid portfolio.

It is not anticipated that these changes will materially affect the funding or operations of the Legal Services Commission for the year ending 31 March 2008.

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

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

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

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

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

Under paragraph 16 (1) of Schedule 1 to the Access to Justice Act 1999, the Commission is responsible for keeping the books of account and for preparing each financial year a statement of accounts. For the 2006/07 financial period, the appended financial statements have been prepared in accordance with paragraph 16 (1) of Schedule 1 to the 1999 Act and with the directions given by the Secretary of State under paragraphs 16 (2) and 16 (3) of the 1999 Act and with directions made by the Treasury relevant to their preparation.

In preparing the Commission's annual accounts the Commission is required to:

- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

Carolyn Regan

Chief Executive

20 July 2007

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

I certify that I have audited the financial statements of the Legal Services Commission for the year ended 31 March 2007 under the Access to Justice Act 1999. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the remuneration report that is described in that report as having been audited.

Respective responsibilities of the Commission, Accounting Officer and Auditor

The Commission and Chief Executive as Accounting Officer are responsible for preparing the annual report, the remuneration report and the financial statements in accordance with the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of HM Treasury and for ensuring the regularity of financial transactions. These responsibilities are set out in the statement of the responsibilities of the Accounting Officer and of the Commission.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of HM Treasury. I report to you whether, in my opinion, certain information given in the annual report, which comprises the directors' report, the management commentary and the remuneration report, is consistent with the financial statements. I also report whether in all material

respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Commission has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

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

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

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Commission and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Commission's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient

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

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

Opinions

Audit opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of HM Treasury, of the state of the Commission's affairs as at 31 March 2007 and of its deficit for the year then ended;
- the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of HM Treasury; and
- information given within the annual report, which comprises the directors' report, the management commentary and the remuneration report, is consistent with the financial statements.

Audit opinion on regularity

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

Report

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

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

23 July 2007

Legal Services Commission Income and expenditure account

For the year ended 31 March 2007

	Note	2007 £000	Restated 2006 £000
Other operating income		212	155
Employment costs	2, 3	(56,690)	(57,429)
Depreciation	5	(2,723)	(2,384)
Other operating charges	6	(43,229)	(35,902)
Operating deficit	7	(102,430)	(95,560)
Interest receivable and similar income	8	1,292	1,253
Interest payable and similar charges	9	(551)	(1,651)
Other finance costs	10	(336)	(816)
Cost of capital charge	1 f)	474	482
Deficit for the year		(101,551)	(96,292)
Reversal of cost of capital charge	1 f)	(474)	(482)
Retained deficit for the year	15	(102,025)	(96,774)

Prior year comparatives have been restated as explained in note 16.

The notes on pages 89 to 110 form part of these financial statements.

Legal Services Commission Statement of recognised gains and losses

For the year ended 31 March 2007

	Note	2007 £000	Restated 2006 £000
Actuarial (loss)/gain recognised in the pension scheme	3, 15	(26,975)	7,953
Recognised gains and losses for the financial year		(26,975)	7,953

Prior year comparatives have been restated as explained in note 16. There is no cumulative effect to report arising from the prior year adjustment.

The notes on pages 89 to 110 form part of these financial statements.

Legal Services Commission Balance sheet

At 31 March 2007

	Note	2007 £000	Restated 2006 £000
Fixed assets	5	8,458	7,812
Current assets			
Debtors	13	4,463	12,637
Cash at bank and in hand	12	8,533	2,639
		12,996	15,276
Creditors: amounts falling due within one year	14	(9,749)	(11,585)
Net current assets		3,247	3,691
Total assets less current liabilities		11,705	11,503
Provision for liabilities and charges	20	(4,329)	(6,506)
Net assets excluding pension liability		7,376	4,997
Pension liability	3	(29,008)	(10,439)
Net liabilities including pension liability		(21,632)	(5,442)
Capital and reserves			
Income and expenditure reserve	15	(21,632)	(5,442)
		(21,632)	(5,442)

Prior year comparatives have been restated as explained in note 16.

Carolyn Regan

Chief Executive and Accounting Officer

20 July 2007

Legal Services Commission Cash flow statement

For the year ended 31 March 2007

	Note	2007 £000	Restated 2006 £000
Net cash outflow from operating activities	11	(103,144)	(100,774)
Returns on investments and servicing of finance	11	706	(440)
Capital expenditure	11	(4,478)	(2,460)
Financing - grant-in-aid capital	15	4,478	2,460
Financing - grant-in-aid revenue	15	108,332	103,020
Increase in cash	12	5,894	1,806

Prior year comparatives have been restated as explained in note 16.

The notes on pages 89 to 110 form part of these financial statements.

Legal Services Commission

Notes to the financial statements

For the year ended 31 March 2007

Note 1 - Statement of accounting policies

These financial statements are prepared in accordance with the Treasury's *Government Financial Reporting Manual* and applicable accounting standards. They are in a form as directed by the Secretary of State for Justice with the approval of the Treasury.

The following accounting policies have been applied consistently in dealing with items considered material in relation to the financial statements, except for the treatment of grant-in-aid as explained in note 16 to the accounts.

a) Accounting convention

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

b) Tangible fixed assets

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

c) Depreciation

Except for assets under construction depreciation is provided on all fixed assets on a straight line basis to

write off the cost of tangible fixed assets over their estimated useful lives as follows:

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

Assets under construction are not depreciated until they have been completed. On completion assets are transferred to their relevant category and depreciated over their estimated useful lives.

d) Other operating income

Other operating income comprises receipts authorised by the Ministry of Justice to be treated as income.

e) Grant-in-aid

Grant-in-aid receivable for revenue purposes or for the acquisition of general fixed assets is accounted for as financing and credited directly to the income and expenditure reserve.

f) Financing charges

As required by the Treasury a charge is made to the income and expenditure account for the notional cost of capital. The notional capital charge, which reflects the cost of financing capital employed, is calculated at 3.5% (2006: 3.5%) of average net assets employed during the year. In accordance with Treasury guidance the notional charge is reversed out of the income and expenditure account before determining the retained surplus or deficit for the year. As the Commission has net liabilities a negative charge applies.

The Commission also receives interest on bank balances and on third party deposit accounts for funded clients. Bank interest is paid over to the Ministry of Justice; excess interest on deposit accounts for funded clients is retained as agreed with the Ministry of Justice. The receipts and payments are shown in 'interest receivable and similar income' and 'interest payable and similar charges' respectively in the income and expenditure account.

Legal Services Commission Notes to the financial statements (*continued*)

For the year ended 31 March 2007

Note 1 - Statement of accounting policies (*continued*)

g) Operating leases

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

h) Leased assets

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

i) Provisions

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

j) Liquid resources

All liquid resources are in the form of cash.

k) Accounting for value added tax

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

l) Pensions

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

The increase in the present value of the liabilities of the Commission's defined benefit pension schemes expected to arise from employee service is charged to the operating surplus. The expected return on the schemes' assets and the increase during the period in the

present value of the schemes' liabilities arising from the passage of time are included under 'other finance costs' in the income and expenditure account. Actuarial gains and losses are recognised in the statement of recognised gains and losses.

m) Going concern

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

The future financing of the Commission's activities is met by grant-in-aid from the Ministry of Justice voted by Parliament annually under the relevant Appropriation Act.

Legal Services Commission

Notes to the financial statements *(continued)*

For the year ended 31 March 2007

Note 2 - Employment costs

	Permanently Employed Staff £000	Other £000	2007 £000	Permanently Employed Staff £000	Other £000	2006 £000
Aggregate payroll costs were as follows:						
Salaries and wages	42,405	2,990	45,395	43,432	3,320	46,752
Social security costs	3,270	132	3,402	4,874	110	4,984
Other pension costs	6,181	-	6,181	5,114	-	5,114
Redundancy	797	-	797	-	-	-
	52,653	3,122	55,775	53,420	3,430	56,850
Commissioners' costs:						
Remuneration as executives	436	-	436	188	-	188
Fees to non-executives	390	-	390	340	-	340
Social security costs	89	-	89	51	-	51
	915	-	915	579	-	579
	53,568	3,122	56,690	53,999	3,430	57,429

All of the remuneration as executives relates to the former Chief Executive, Clare Dodgson.

Other pension costs are the total operating charges on the pension schemes which includes non-permanent employees and employees of the Community Legal Service Fund and Criminal Defence Service as well as the Legal Services Commission. These costs cannot be separately identified from the actuarial valuation.

Fees to non-executives include reimbursement of travel expenses from home to office and taxation paid by the Commission on these expenses.

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

Legal Services Commission Notes to the financial statements *(continued)*

For the year ended 31 March 2007

Note 2 - Employment costs *(continued)*

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

	Permanently Employed Staff	Other	2007	Permanently Employed Staff	Other	2006
Change Programme	124	17	141	123	12	135
Service Delivery	1,114	92	1,206	1,254	87	1,341
Corporate Services	207	21	228	205	25	230
Transfer of Grant	9	7	16	-	-	-
	1,454	137	1,591	1,582	124	1,706
Commissioners	11	-	11	10	-	10
	1,465	137	1,602	1,592	124	1,716

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

PDS and CDS Direct

	Permanently Employed Staff £000	Other £000	2007 £000	Permanently Employed Staff £000	Other £000	2006 £000
Aggregate payroll costs were as follows:						
Salaries and wages	2,749	143	2,892	2,713	112	2,825
Social security costs	247	5	252	238	2	240
	2,996	148	3,144	2,951	114	3,065

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2007

Note 2 - Employment costs (*continued*)

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

	Permanently Employed Staff	Other	2007	Permanently Employed Staff	Other	2006
PDS	79	7	86	81	4	85
CDS Direct	1	-	1	1	-	1
	80	7	87	82	4	86

Community Legal Service Direct and Other Projects

	Permanently Employed Staff £000	Other £000	2007 £000	Permanently Employed Staff £000	Other £000	2006 £000
Aggregate payroll costs were as follows:						
Salaries and wages	851	90	941	818	33	851
Social security costs	83	-	83	76	-	76
	934	90	1,024	894	33	927

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

	Permanently Employed Staff	Other	2007	Permanently Employed Staff	Other	2006
Community Legal Service Direct	24	7	31	29	2	31
Other Projects	1	-	1	1	-	1
	25	7	32	30	2	32

Legal Services Commission Notes to the financial statements (*continued*)

For the year ended 31 March 2007

Note 3 - Pension costs

The Legal Services Commission operates two pension schemes, the No. 4 Scheme and the No. 3 Scheme, providing benefits based on final pensionable salary. The assets of the schemes are held separately from those of the Commission, being invested in funds managed by Legal & General Investment Management Limited. Contributions to the schemes are charged to the income and expenditure account so as to spread the cost of the pensions over employees' working lives with the Commission. The contributions are set by the Trustees having taken advice from the Scheme Actuary (Hymans Robertson LLP) on the basis of biennial valuations. The most recent formal valuations were as at 31 March 2006 and these results are restated in the valuation assumptions for the FRS17 valuation for current year disclosure.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the rate set by the Government Actuary's Department currently fixed at 1.8% p.a. (2006: 2.8%) in excess of expected future price inflation. The discount rate is lower than the real yield on long-dated corporate bonds, which would be used for FRS17 in the absence of Treasury guidance.

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

A full actuarial valuation of the Scheme was carried out at 31 March 2006 by qualified independent actuaries Hymans Robertson LLP.

The Commission has contributed 26.1% of pensionable salary since 1 April 2006 with additional employer contributions of £5.7m in 2007 (2006: £5.3m).

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

A full actuarial valuation of the Scheme was carried out at 31 March 2006 by qualified independent actuaries Hymans Robertson LLP.

The Scheme is closed to new entrants and there are no active members. The Commission has contributed £183,500 in the period 1 April 2006 to 31 March 2007 (2006: £183,500). The No.3 Scheme is closed and therefore under the projected unit method the current service cost will increase as the members of the Scheme approach retirement.

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2007

Note 3 - Pension costs (*continued*)

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

	No. 4 Scheme 2007	No. 3 Scheme 2007	No. 4 Scheme 2006	No. 3 Scheme 2006
Discount rate	5.05% p.a.	5.05% p.a.	5.8% p.a.	5.8% p.a.
Rate of increase in salaries	4.75% p.a.	n/a	4.5% p.a.	n/a
Deferred pension increases before retirement	3.25% p.a.	3.25% p.a.	3.0% p.a.	3.0% p.a.
Rate of increase in pensions in payment:				
Post 1997 pension	3.25% p.a.	3.25% p.a.	3.0% p.a.	3.0% p.a.
Pre 1997 pension	3.25% p.a.	3.25% p.a.	3.0% p.a.	3.0% p.a.
Inflation assumption	3.25% p.a.	3.25% p.a.	3.0% p.a.	3.0% p.a.

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

	Expected long-term rate of return at 31 March 2007	Value at 31 March 2007 £000	Expected long-term rate of return at 31 March 2006	Value at 31 March 2006 £000
No. 4 Pension Scheme				
Market value of assets				
Equities	7.5%	92,384	7.5%	81,761
Gilts and cash	4.5%	72,908	4.2%	61,775
Insured pensioners	5.05%	12,200	5.8%	11,818
Total market value of assets		177,492		155,354
Actuarial value of liabilities		(206,500)		(165,687)
Deficit in the Scheme		(29,008)		(10,333)
Related deferred tax liability		n/a		n/a
Net pension liability		(29,008)		(10,333)

Legal Services Commission Notes to the financial statements (*continued*)

For the year ended 31 March 2007

Note 3 - Pension costs (*continued*)

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

	Expected long-term rate of return 2007	Value 2007 £000	Expected long-term rate of return 2006	Value 2006 £000
No. 3 Pension Scheme				
Market value of assets				
Equities	7.5%	1,429	7.5%	1,436
Gilts and cash	4.5%	1,763	4.2%	1,665
Insured pensioners	5.05%	870	5.8%	1,048
Total market value of assets		4,062		4,149
Actuarial value of liabilities		(3,782)		(4,255)
Deficit in the Scheme		280		(106)
Irrecoverable surplus*		(280)		-
Related deferred tax liability		n/a		n/a
Net pension liability		-		(106)

* The surplus in the plan is only recoverable to the extent that the Legal Services Commission can benefit from either refunds formally agreed or future contribution reductions.

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2007

Note 3 - Pension costs (*continued*)

Pension scheme costs charged to operating costs include:

	No. 4 Scheme 2007 £000	No. 3 Scheme 2007 £000	No. 4 Scheme 2006 £000	No. 3 Scheme 2006 £000
Current service cost	5,517	-	4,784	-
Past service charge	664	-	330	-
Total operating charge	6,181	-	5,114	-

Pension scheme interest costs

Expected return on Scheme assets	9,629	233	7,889	221
Interest on Scheme liabilities	(9,721)	(236)	(8,505)	(221)
Net return	(92)	(3)	(616)	-

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

Actual return less expected return on Scheme assets	348	(140)	16,930	408
Experience gains and losses arising on Scheme liabilities	11,252	643	-	-
Changes in assumptions underlying the present value of the Scheme liabilities	(38,500)	(298)	(8,960)	(425)
Increase in irrecoverable surplus	-	(280)	-	-
Actuarial (loss)/gain included in the statement of recognised gains and losses	(26,900)	(75)	7,970	(17)

Legal Services Commission

Notes to the financial statements *(continued)*

For the year ended 31 March 2007

Note 3 - Pension costs *(continued)*

	No. 4 Scheme 2007 £000	No. 3 Scheme 2007 £000	No. 4 Scheme 2006 £000	No. 3 Scheme 2006 £000
The movement in the deficit during the year arose as follows:				
Deficit in Scheme at beginning of year	(10,333)	(106)	(26,341)	(273)
Revalued deficit in Scheme at beginning of year	(10,333)	(106)	(26,341)	(273)
Current service cost	(5,517)	-	(4,784)	-
Contributions	14,498	184	13,768	184
Past service cost	(664)	-	(330)	-
Other finance costs	(92)	(3)	(616)	-
Actuarial (loss)/gain	(26,900)	(75)	7,970	(17)
Deficit in Scheme at end of year	(29,008)	-	(10,333)	(106)

The No. 4 Pension Scheme history of experience gains and losses over the period 1 April 2003 to 31 March 2007 were as follows:

	No. 4 Scheme 2007 £000	No. 4 Scheme 2006 £000	No. 4 Scheme 2005 £000	No. 4 Scheme 2004 £000	No. 4 Scheme 2003 £000
Difference between the expected and actual return on Scheme assets	348	16,930	1,606	8,027	(14,924)
Percentage of Scheme assets	0.2%	10.9%	1.4%	8.0%	(19.4)%
Experience gains and losses on Scheme liabilities	11,252	-	2,754	-	686
Percentage of the present value of Scheme liabilities	5.4%	-	1.9%	-	(0.6)%
Total amount recognised in the statement of recognised gains and losses	(26,900)	7,970	(16,471)	(1,392)	(13,934)
Percentage of the present value of Scheme liabilities	(13.0)%	4.8%	(11.4)%	(1.2)%	(13.9)%

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2007

Note 3 - Pension costs (*continued*)

The No. 3 Pension Scheme history of experience gains and losses over the period 1 April 2003 to 31 March 2007 were as follows:

	No. 3 Scheme 2007 £000	No. 3 Scheme 2006 £000	No. 3 Scheme 2005 £000	No. 3 Scheme 2004 £000	No. 3 Scheme 2003 £000
Difference between the expected and actual return on Scheme assets	(140)	408	(102)	313	(114)
Percentage of Scheme assets	(3.4)%	9.8%	(2.7)%	8.2%	(4.0)%
Experience gains and losses on Scheme liabilities	643	-	891	-	(233)
Percentage of the present value of Scheme liabilities	17.0%	-	22.3%	-	(5.0)%
Total amount recognised in the statement of recognised gains and losses	(75)	(17)	483	(82)	(342)
Percentage of the present value of Scheme liabilities	(2.0)%	(0.4)%	12.1%	(1.7)%	(8.0)%

There was one early retirement (2006: Nil) on ill-health grounds; there were no additional accrued pension liabilities in the year (2006: Nil).

Note 4 - Reconciliation of fixed asset additions to capital expenditure

	2007 £000	2006 £000
Fixed asset additions	4,478	2,494
Creditors and accruals	-	-
Payments to acquire tangible fixed assets	4,478	2,494

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2007

Note 5 - Tangible fixed assets

	Assets under construction £000	Fixtures and fittings £000	Furniture and equipment £000	Computer equipment £000	Total £000
Cost at 1 April 2006	-	5,914	2,332	5,233	13,479
Additions	3,769	95	116	498	4,478
Disposals	-	(1,773)	(378)	(1,058)	(3,209)
Cost at 31 March 2007	3,769	4,236	2,070	4,673	14,748
Depreciation at 1 April 2006	-	1,805	783	3,079	5,667
Charged in year	-	1,366	588	769	2,723
Disposals	-	(941)	(232)	(927)	(2,100)
Depreciation at 31 March 2007	-	2,230	1,139	2,921	6,290
Net book value at 31 March 2007	3,769	2,006	931	1,752	8,458
Net book value at 31 March 2006	-	4,109	1,549	2,154	7,812

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2007

Note 6 - Other operating charges

	2007	2006
	£000	£000
Rent, rates and insurance	6,997	6,795
Maintenance, heating, lighting and dilapidation charge	3,214	1,567
Office machinery expenditure and maintenance	1,605	1,582
Office supplies, printing and stationery	734	1,074
Publicity	207	242
Managed facility - outsourced contracts	1,450	1,488
Postage and telephone	2,668	2,679
File assessment and peer review	1,716	1,527
Legal and professional charges	4,064	2,606
Research and development	423	307
Contribution recovery costs	74	78
Audit fee	135	125
Computer contractors	1,155	873
Security service and contracts	606	517
Staff recruitment and retention expenses	1,139	1,825
Payroll contract	131	125
Travelling, subsistence and committee members' attendance fees	2,310	2,940
Conferences and courses	1,300	1,499
Land Registry charges	235	291
Ex gratia payments and other similar charges	96	258
HMCS Service Charge - Crime Higher	7,520	7,520
HMCS Service Charge - Transfer of Grant	4,341	-
Loss/(Profit) on disposal and write down of fixed assets	1,109	(16)
	43,229	35,902

The HMCS Service Charge is incurred under a Service Level Agreement. The Legal Services Commission compensates Her Majesty's Courts Service for administrative costs incurred in providing legal aid services in the Higher Criminal Courts and for means assessment work in the Lower Courts.

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

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2007

Note 7 - Operating surplus

	2007	2006
	£000	£000
Operating deficit is stated after charging the following:		
Operating leases	5,954	5,655
Auditor remuneration	135	125

Auditor remuneration is for statutory audit work only.

Note 8 - Interest receivable and similar income

	2007	2006
	£000	£000
Interest receivable and similar income	1,292	1,253

Note 9 - Interest payable and similar charges

	2007	2006
	£000	£000
Interest payable and similar charges	551	1,651

Note 10 - Other finance costs

	2007	2006
	£000	£000
Discount on provisions (note 20)	241	200
Pension Scheme No. 4 (note 3)	92	616
Pension Scheme No. 3 (note 3)	3	-
	336	816

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2007

Note 11 - Gross cash flows

	2007	Restated
	£000	2006
		£000
Reconciliation of operating surplus to net operating cash flows		
Operating deficit	(102,430)	(95,560)
Depreciation charges and (profit)/loss on disposal	3,831	2,368
Decrease/(increase) in debtors	8,210	(7,332)
(Decrease)/increase in creditors	(1,836)	8,199
(Decrease)/increase in provisions	(2,418)	389
Other finance charges and pension payments	(8,501)	(8,838)
Net cash outflow from operating activities	(103,144)	(100,774)
Returns on investment and servicing of finance		
Interest received	1,257	1,211
Interest paid	(551)	(1,651)
	706	(440)
Capital expenditure		
Payments to acquire tangible fixed assets (note 5)	(4,478)	(2,494)
Receipts from sales of tangible fixed assets	-	34
	(4,478)	(2,460)

Prior year comparatives have been restated as explained in note 16.

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2007

Note 12 - Analysis of changes in net funds

	At 1 April 2006	Cash flows	At 31 March
	£000	£000	2007
			£000
Cash at bank and in hand	2,639	5,894	8,533

Note 13 - Debtors

	2007	2006
	£000	£000
Amounts falling due within one year		
Other debtors	244	206
Amounts due from the MoJ on the HMCS Service Level Agreement	-	7,520
Amounts due from CLS Fund	230	1,273
Prepayments and accrued income	3,989	3,638
	4,463	12,637

Note 14 - Creditors

	2007	2006
	£000	£000
Amounts falling due within one year		
Other creditors	1,434	42
Amounts due to HMCS on the Service Level Agreement - Crime Higher	-	7,520
Amounts due to HMCS on the Service Level Agreement - Transfer of Grant	3,786	-
Amounts due to CDS	-	259
Other taxation and social security costs	53	52
Accruals and deferred income	4,476	3,712
	9,749	11,585

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2007

Note 15 - Reserves

	Income and expenditure reserve £000	Government grant reserve £000	Total reserves £000
At 31 March 2006	(13,254)	7,812	(5,442)
Effect of change in accounting policy:			
Transfer from government grant reserve	7,812	(7,812)	-
Adjusted balance at 31 March 2006	(5,442)	-	(5,442)
Deficit for the financial year	(102,025)	-	(102,025)
Actuarial loss recognised	(26,975)	-	(26,975)
Grant-in-aid - capital	4,478	-	4,478
Grant-in-aid - revenue	108,332	-	108,332
At 31 March 2007	(21,632)	-	(21,632)

Note 16 - Prior year adjustment

There has been a change in accounting policy in the following areas as a result of the revision of the *Government Financial Reporting Manual* for 2006/07.

Grant-in-aid receivable for revenue purposes or for the acquisition of general fixed assets is regarded as a form of financing and no longer as income. Grant-in-aid is therefore credited directly to the income and expenditure reserve.

The change in accounting policy has required a restatement of prior year comparatives. The effect of the prior year adjustment is set out below:

Income and expenditure account

	2006 £000
Operating income	
As previously reported	105,543
Prior year adjustment - 2006 grant-in-aid	(105,388)
As restated	155

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2007

Note 16 - Prior year adjustment (*continued*)

Balance sheet

Reserves

The effect of the prior year adjustment has been disclosed in note 15.

Statement of recognised gains and losses

	2006
	£000
Income and expenditure account	8,045
As previously reported	(92)
Prior year adjustment - 2006 movement in government grant reserve	7,953
As restated	

Cashflow statement

	2006
	£000
Net cashflow from operating activities	
As previously reported	4,706
Prior year adjustment	(105,480)
As restated	(100,774)

	2006
	£000
Financing	
As previously reported	-
Prior year adjustment	(105,480)
As restated	(105,480)

Note 17 - Going concern

The balance sheet at 31 March 2007 shows an excess of liabilities over assets of £21.6m.

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

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2007

Note 18 - Capital commitments

There are commitments for capital expenditure of £57,214 (2006: £23,209) for which no provision has been made in these accounts.

Note 19 - Commitments under operating leases

	Land and buildings 2007 £000	Other 2007 £000	Total 2007 £000	Land and buildings 2006 £000	Other 2006 £000	Total 2006 £000
Annual commitments under operating leases expiring:						
Within one year	508	2	510	1,717	77	1,794
Between two to five years	428	414	842	549	62	611
Over five years	4,134	-	4,134	2,952	-	2,952
	5,070	416	5,486	5,218	139	5,357

Note 20 - Provision for liabilities and charges

	Restructuring £000	PAYE £000	Dilapidations £000	Total £000
At 1 April 2006	400	3,158	2,948	6,506
Additions and increases to provision	985	-	1,092	2,077
Amounts used in the period	(400)	(2,089)	-	(2,489)
Unused amounts reversed in the period	-	(1,069)	(937)	(2,006)
Finance charges (note 10)	-	-	241	241
At 31 March 2007	985	-	3,344	4,329

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

Provision is made for estimated dilapidation costs on leasehold buildings. The provision has been estimated with reference to the condition and location of the buildings and discounted at 2.2% (2006: 2.2%). The costs are expected to be incurred between 2007 and 2019 as the leases expire. A dilapidation provision on vacated buildings is maintained until dilapidation negotiations have been finalised.

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

Legal Services Commission Notes to the financial statements (*continued*)

For the year ended 31 March 2007

Note 21 - Contingent liabilities

There are no contingent liabilities as at 31 March 2007 (2006: Nil).

Note 22 - Related party transactions

The Legal Services Commission is a non-departmental public body sponsored by the Ministry of Justice. The Ministry of Justice is regarded as a related party. During the year, the Legal Services Commission had various material transactions with the Ministry.

During 2006/07 the Legal Services Commission entered into no other material transactions with related parties.

Note 23 - Financial instruments

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

Liquidity risk

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

Interest rate risk

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

Foreign currency risk

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

Legal Services Commission

Notes to the financial statements (*continued*)

For the year ended 31 March 2007

Note 23 - Financial instruments (*continued*)

Financial assets

	Fixed rate financial assets £000	Floating rate financial assets £000	Financial assets on which no interest is received £000	Total £000	Weighted average interest rate	Weighted average period for which interest rate is fixed Years
Currency						
Sterling	-	8,533	-	8,533	4.2%	-
At 31 March 2007	-	8,533	-	8,533	4.2%	-
Sterling	-	2,639	-	2,639	4.1%	-
At 31 March 2006	-	2,639	-	2,639	4.1%	-

Financial liabilities

	Fixed rate financial liabilities £000	Floating rate financial liabilities £000	Financial liabilities on which no interest is paid £000	Total £000	Weighted average interest rate	Weighted average period for which interest rate is fixed Years
Currency						
Sterling	2,849	-	-	2,849	2.2%	-
At 31 March 2007	2,849	-	-	2,849	2.2%	-
Sterling	1,991	-	-	1,991	2.2%	-
At 31 March 2006	1,991	-	-	1,991	2.2%	-

Fair values

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

Legal Services Commission Notes to the financial statements (*continued*)

For the year ended 31 March 2007

Note 24 - Accountability notes

Losses

There were no incidences of cash reported stolen in the year (2006: Nil).

There were nine items of equipment totalling £1,583 reported stolen in the year (2006: Nil).

There were no incidents of fraud in the year (2006: one incident of £27,320).

The Commission negotiated a final payment of £2.089m to HM Revenue and Customs to settle the outstanding taxation due on committee member fees for the period 2000 to 2006.

Special payments

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

During the year there were 67 (2006: 101) ex gratia payments totalling £96,204 (2006: £257,537).

Note 25 - Post balance sheet events

Post balance sheet events have been considered up to 24 July 2007. On 29 March 2007 the Government announced its intention to transfer the work of the Department for Constitutional Affairs, including that relating to publicly funded legal services, to a new Ministry of Justice. The changes came into effect on 9 May 2007.

On 28 June 2007 Jack Straw was appointed Lord Chancellor and Secretary of State for Justice. On 29 June 2007 Lord Philip Hunt OBE replaced Vera Baird QC MP as Parliamentary Under Secretary of State with responsibility for the legal aid portfolio.

It is not anticipated that these changes will materially affect the funding or operations of the Legal Services Commission for the year ending 31 March 2008.

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