



Legal Aid
Agency

Legal Aid Agency
Annual Report and Accounts
2014-15



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Legal Aid Agency **Annual Report and Accounts 2014-15**

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Chief Executive's statement

Chief Executive's statement



This is the second Annual Report and Accounts of the Legal Aid Agency (LAA). We have continued to build on the early progress of an organisation I remain very proud to lead. This is an organisation which encourages and values its people and we try to take the energy that creates into the way we work with providers and the wider justice system.

We remain focused on our three Strategic Objectives (SOs). Our aim is to deliver value for money, improve performance and find new and more effective ways of working in today's digital world. Our organisation has made significant progress and we are continuing to move forward in these areas.

SO1: Improve casework to reduce cost, enhance control and give better customer service

Overall, bills and applications are being processed faster than ever. Customer service levels have improved and we have low levels of rejects and call waiting times.

We rolled out the Client and Cost Management System (CCMS) for new civil cases in 2014. Since then, we have been working with staff and providers to make sure enhancements to the CCMS are made as part of a programme of regular improvements. The system is due to be made mandatory on 1 October 2015.

Our Crime Change Programme (CCP) has meant the roll out of eForms for criminal legal aid applications. In regions where eForms have been rolled out we now have 63% of criminal legal aid applications being made online. This change in working has taken place in tandem with us taking on responsibility for processing legal aid applications from Her Majesty's Courts and Tribunals Service (HMCTS). This has involved a lot of partnership working which has helped to keep the programme on course.

This work has overlapped with the wider work to introduce digital working in the criminal justice system and is being done through the Criminal Justice System (CJS) efficiency and Common Platform programmes. This work is complex, but it will create a more efficient and effective justice system through improved case management, reducing delay and duplication. It facilitates greater accessibility and transparency of information. It also supports more flexible and modern ways of working, while also delivering cost savings.

SO2: Improve organisational capability to meet the challenges ahead, including developing and engaging our people

Our staff are continuing to show the important role they play in the work of our Agency. They are our greatest asset and work in a culture that values diversity and is positive, inclusive and outward looking. We want them to maximise their potential and have launched a learning and development programme for our managers to make sure they have every chance to succeed.

We have started a Workplace Transformation initiative based on the Cabinet Office, The Way We Work (TW3) agenda. This has looked at a range of options for motivating our staff, better

technology and more flexible working. The initiative has implemented a range of changes in a number of sites that are aimed to transform the way we work. We've had some encouraging results with increases in staff engagement being seen in our pilot sites. The initiative also has the added benefit of helping to use our office space more efficiently and save money.

We have also successfully promoted the values of cross team working and collaboration within the organisation. This has created a positive dynamic that I believe is very important and is helping to foster innovation within the LAA.

S03: Build and maintain strong partnerships to secure quality provision and contribute fully to wider justice and Government aims

We are part of a bigger family in the Ministry of Justice (MoJ) and we work hard to think about our role in the context of a wide variety of functions, both within the Department and across Whitehall. For example, an initiative like the CJS efficiency programme brings together a lot of different players, including HMCTS, the National Offender Management Service, the Crown Prosecution Service, and the LAA.

We have prepared our accounts earlier than ever before and being unqualified once again demonstrates the growing robustness of the LAA. This is a vibrant organisation which has a sound record in stewardship of public money.

Our improving performance levels, our commitment to digital working processes and better customer service are all helping us to deliver as an organisation.

We remain determined to keep strengthening our external relationships. This includes, providers and their representative bodies. These

relationships are important to our development and we need to ensure they remain built into our patterns of work. Our relationships are especially important as we develop and refine new processes.

I see the LAA as a forward thinking organisation which is embracing the changes and opportunities that new ways of working and improved processes are bringing to us all. This is feeding into a positive outlook which we are taking outside the organisation.

That is something which benefits everyone we work with, both inside and outside the LAA. So I'd like to thank all our staff for their hard work. Also, all the members of the LAA Board for their support, oversight and guidance to what is still a very young Executive Agency.



Matthew Coats

Chief Executive and Accounting Officer
of the Legal Aid Agency
5 June 2015

Strategic report

About the Legal Aid Agency

This chapter reports on the LAA's purpose, its providers, and its people.

Our purpose

Our purpose is to deliver legal aid efficiently and effectively as part of the justice system. We work closely with legal providers and the wider MoJ to administer legal aid. Our work is essential to the fair, efficient and effective operation of the civil, family and criminal justice systems. Our purpose is at the heart of all of our day to day decision making and our work to transform legal aid services, and the engagement and commitment of our staff is crucial.

Our purpose is underpinned by our three SOs which have remained consistent for the last two years.

Further detail on our SOs can be found on page 14.

Our organisation

The LAA administers legal aid throughout England and Wales.

At the core of our work we:

- Process applications and pay bills for legal aid;
- develop, tender and award new contracts; and
- provide independent defence representation for criminal defendants.

All of this is supported by:

- A Case Management function which assesses and processes all civil and crime applications and bills;
- a Commissioning and Strategy team which designs, develops and awards contracts and informs policy design. The team also includes contract managers who work closely with our provider base across England and Wales;
- a Finance and Performance directorate which administers and assures the accuracy of legal aid payments, and enables us to meet our statutory requirements for financial management;
- a Business Change and IT directorate which supports delivery of key change programmes and our move to digital interactions; and
- a Corporate Centre which promotes effective communications and enables us to meet our statutory requirements under the Freedom of Information (FOI) and Data Protection Acts (DPA).

The work of the LAA is broadly categorised into the following main areas:

Civil Legal Aid

Civil Legal Aid is available for cases involving an individual's life, liberty, physical safety and homelessness. It is provided through legal advice, family mediation and representation in courts and some tribunals. This is possible where claimants meet the "means" and "merits" test and is available on a range of categories such as housing, mental health, debt, family, and education.

Civil Legal Aid includes contracted solicitors, barristers, mediators, and advice agencies which provide civil and family legal advice. Civil Legal Aid also delivers a national advice line for England and Wales which includes telephone and internet based services.

Criminal Legal Aid

Criminal Legal Aid includes legal advice and representation to people being investigated or charged with a criminal offence. Legal aid is awarded in all criminal cases where the claimant meets the relevant eligibility test, with the exception of police station advice. Criminal Legal Aid includes the duty solicitor schemes for police stations and magistrates' courts, which ensures those who need advice and representation can see a solicitor. The LAA commissions legal aid from providers for police station advice, representation in magistrates' courts and in Crown Courts through the Litigator and Advocate Graduated Fee Schemes (LGFS/AGFS), as well as contracting directly with providers through the High Cost Cases team. The LAA also funds legal aid cases in the higher courts such as the Court of Appeal and the UK Supreme Court. The Public Defender Service (PDS) provides criminal defence services directly to the public.

The Public Defender Service (PDS)

The PDS established in 2001 provides a criminal defence service directly to the public. It covers the full range of criminal work in police stations, magistrates' and Crown Courts. Representation for those under arrest or attending voluntarily at a police station is available 24 hours a day, 7 days a week. The PDS operates from offices in Darlington, Cheltenham, Pontypridd and Swansea, with a corporate hub in Cardiff.

In 2014 we created a specialist Advocacy Unit. The unit is made up of 24 barristers and Higher Courts' Advocates including seven Queen's Counsel.

LAA Administration

Costs of administering the legal aid schemes include:

- LAA employee and related staff costs;
- estate costs;
- expenditure reimbursed to HMCTS for processing criminal legal aid on behalf of the LAA;
- IT costs;
- legal and professional fees; and
- postage, training, travel and other areas of expenditure necessary to ensure effective administration of the Legal Aid Fund.

Central Funds

Central Funds spend occurs under the terms of the Prosecution of Offences Act 1985, whereby acquitted defendants who have applied for legal aid and then privately funded their legal representation, and private prosecutors, may obtain from the Crown Court, in limited circumstances, an order to obtain their costs.

Engagement in Wales

The LAA maintains close links with the Welsh Assembly Government, in recognition of the devolved administration. This includes working directly with stakeholder groups, for example, the Criminal and Family Justice Boards in Wales, as well as specific Welsh stakeholders including Citizens Advice Bureau Cymru, Children and Family Court Advisory and Support Service Cymru and Shelter Cymru.

Our Shared Services

As part of the wider MoJ family we make use of a number of the Ministry's centralised functions including:

- Human resources;
- procurement;
- technology and digital services;
- analytical functions;
- legal advice; and
- estates.

Our people

Our people are at the heart of delivering legal aid efficiently and effectively. We continue to strive to make the LAA a better place to work.

We do this by:

- Investing in the capability and skills of our people;
- greater promotion of collaborative working;
- improving the working environment; and
- improving communication.

Throughout 2014-15 we launched a number of initiatives and programmes to help our staff, offering a variety of learning and development opportunities including:

- Shadowing opportunities are available to all staff who wish to experience working in other teams. They can spend a day or a week with other teams, and staff also have the opportunity to shadow other Government departments;
- a network of leaders who offer coaching and mentoring to staff. We also launched the leadership programmes for staff at bands A and B; and
- managers who continue to encourage our

staff to make use of the minimum five days of learning they have available each year.

A series of Career Management Workshops were made available to support colleagues in understanding the Civil Service Competency Framework, translating their day to day tasks into examples for application forms, and targeting workplace experiences to enhance their career.

Staff Survey

In 2014, for the second year in a row, 89% of staff participated in the annual staff engagement survey. Our overall engagement index increased by five percentage points to 65% and we moved to 17th position across the whole of the Civil Service. We are in the top 10 Civil Service organisations in four out of the nine themes of the survey, including Leadership and Change (5th), My Team (6th), Learning and Development (9th) and Pay and Benefits (9th).

Leadership and succession planning

Capability

During 2014-15 the LAA has focused on investing in the skills of its staff through creation of new programmes to enhance skills and promotion of the use of Civil Service Learning (CSL). CSL is an online portal that all staff have access to. It provides courses and resources for developing skills common to all UK Civil Servants in all Civil Service roles. All LAA staff are encouraged to use their minimum five learning days a year. The minimum five days learning can be taken up through a variety of avenues including shadowing, workshops and CSL courses.

Development Programme

In 2014-15 the LAA created two programmes to invest in our future leaders. The Leadership Development Programme for middle and senior managers has been running since September 2014 and provides focused leadership development to a group of 25 aspiring senior leaders. The programme provides participants with dedicated training opportunities to improve their leadership skills, master classes on key aspects of leadership, and one to one leadership mentoring and support.

The LAA also created and launched a Management Skills Programme for all managers, designed to enhance managers' skills, help them inspire their teams, and equip them to manage during a period of change. The programme comprises of a series of modules, with a mix of face to face workshops, eLearning and master classes to suit different learning styles.

Details of the composition of our management team are included in the Governance Statement on page 42.

Workplace transformation

Throughout 2014-15 we have piloted and rolled out new ways of working to allow people to have more choice about where and when they work. This included a successful pilot of the Intrinsic Motivation Project in Cardiff, which removed time based targets for individuals and focused them on the overall aim of the work. The pilot showed the team were able to create an environment where people have a greater sense of autonomy, feel trusted and in control of their work leading to increases in productivity and team engagement. Following the Cardiff pilot, intrinsic motivation was piloted in the Bristol regional office.

In addition, the LAA are implementing the Government wide TW3 initiative to Transform the Way We Work, moving from the stereotype that work is something undertaken at a desk in a Government building to work being undertaken in many places. We have begun to roll this out in the Cardiff and London offices and will continue to roll out across the LAA in a careful measured way.

Change programmes

Our second year as an executive agency saw a number of initiatives designed to have a positive impact on the way we work with our providers. This was achieved whilst continuing to deliver strong performance against our three year plan.

We are now processing applications and paying bills faster, creating clearer channels of access for our customers and, ensuring we are continuing to deliver services to clients whilst savings are made against our budgets. We have also made progress towards the wider Civil Service objective of working fully digitally, demonstrated by significant key milestones being met in our change programmes.

Our change programmes:

Delivering the Integrated Delivery Programme (IDP)

The IDP is responsible for delivering the CCMS. CCMS includes:

- A new general ledger and chart of accounts;
- a provider interface for submitting civil applications and bills;
- a new internal case management system; and
- a new integrated cash collection and debt management systems.

A key aspect of IDP has been the roll out of the CCMS to all providers and chambers who complete civil legal aid work. The roll out was completed on a voluntary basis between April and September 2014 and the launch of the system makes it possible for providers to manage new civil cases online.

This involved detailed planning and engagement with providers and IT partners to ensure readiness and a smooth transition. We meet regularly with representative bodies and individual providers to gather and collate feedback on the CCMS. We work closely with users to ensure that enhancements to the system reflect the needs of users wherever possible. We are mindful of the investment of time and effort which this involves for both providers and us, and are very grateful for the collaboration and assistance which we have received in making the system better. Visits to providers from our contract management staff were carried out during and after the roll out process to ensure support was available, along with a dedicated series of training events and a telephone helpline.

Alongside the external roll out of the system, a training programme for staff is taking place in order for the LAA to process the new work being submitted online.

Legal Aid Transformation (LAT)

In October 2012, the then Secretary of State for Justice, announced the need for further savings across the MoJ to reduce the cost of legal aid, whilst ensuring public confidence in the justice system.

The LAT programme was introduced to examine the possibilities for further reforms, including the concept of tendering for the opportunity to be a criminal legal aid provider, and identifying ways in which public confidence could be improved.

Following a public consultation process, the Government announced in September 2013 its decision to implement a number of reforms.

In 2014-15 we implemented the following reforms:

- Changes to the remuneration of Judicial Review cases, and changes to remuneration schemes to reflect the introduction of a single Family Court;
- reduction of the fixed fee paid to providers in family cases covered by the Care Proceedings Graduated Fee Scheme (and the underlying hourly rates) by 10%;
- amendments to private family law children and finance evidence requirements, and Family Advocacy Scheme Court Bundles;
- interim payments under LGFS; and
- fee reduction across all criminal legal aid advice and litigation services and magistrates' court advocacy representation.

Crime Change Programme (CCP)

The aim of the CCP is to modernise the criminal legal aid process and to enable all crime providers to submit applications and bills online.

There are three key parts to the programme:

1. Transfer of Grant (ToG)

We have been working closely with HMCTS to streamline legal aid processes and bring them all into the LAA. From June 2014 the processing of criminal legal aid applications began to be transferred from HMCTS. Previously, crime applications were processed by HMCTS staff across various courts in England and Wales. We have centralised this work into three locations within the LAA. As part of this transition the programme has delivered significant internal capability linking LAA and HMCTS court systems

using the Managed Libra Record Application (MLRA) link. This link enables the data within each application to be injected into HMCTS systems and for LAA staff to work securely across both systems providing more efficient processing of applications.

The initial pilot phase covered the Nottinghamshire, Derbyshire, Cheshire, Merseyside, Warwickshire and West Midlands HMCTS areas. The full transition to the LAA began in October 2014 and at the end of 2014-15 the majority of HMCTS regions had transferred the processing of criminal legal aid to the LAA, with the full completion of ToG due in June 2015.

2. *eForms*

The programme has also enabled applications for Criminal Legal Aid (Representation Orders) to be submitted via eForms. eForms are online legal aid application forms, which allow providers to submit applications electronically.

3. *Crime Billing Online*

The Crime Billing Online project commenced the discovery phase in November 2014. The programme team have engaged with solicitors and barristers to establish user needs and this engagement will continue during future phases to ensure a user centric product. The team aim to produce a working prototype for advocates Crown Court bills in June 2015, with further cycles of iterative development to build functionality and enable wider use of the system.

These three main programmes will continue to be important in the year ahead. Please see the section "Our plans for the future" on page 23 for more information.

Working with providers

As a key part of the justice system in England and Wales, the LAA works with a wide range of providers of legal services and other justice system stakeholders. These include the Law Society and Bar Council, both the Family and Criminal Justice Boards, the Solicitors Regulation Authority, and HMCTS.

Our relationships with providers are central to the work of our organisation. Through meetings such as the Crime and Civil Consultative Groups we ensure we have regular engagement on key operational issues with the main representative bodies. On a daily basis our contract managers and case management staff work closely with our provider base to ensure the smooth running of our contracts and processing.

Environment, social, community and human rights

Environmental issues

The LAA's focus for sustainability is on achieving Government targets, reducing environmental impact and reducing costs. Priorities include reducing carbon emissions, water consumption and recycling more waste.

Further details are set out in the Sustainability report on page 26.

Political donations

During 2014-15, the LAA made no political donations (2013-14: nil).

Equality and diversity

The LAA values an inclusive culture. We aim to attract and retain a representative workforce that understand the needs of the diverse population we serve and are able to use that knowledge to improve how we deliver legal aid. We have appointed a diversity champion within our Executive Management Team who supports and champions the diversity priorities of the LAA, supported by a network of champions across the LAA.

The diversity priorities for the LAA are to:

- Ensure leadership promotes equality, diversity and inclusion;
- improve support for staff with a disability;
- build an inclusive culture towards different working patterns;
- support the diverse representation of staff at senior grades; and
- improve the capability of staff to take account of the equality duty to enable us to efficiently commission and administer legal aid.

In 2014-15 we have:

- Delivered mental health awareness training by MIND, a registered charity for mental health, across six offices, with a total of 160 staff trained;
- launched a DisAbility Champion network made up of 30 volunteers across the LAA;
- been shortlisted for the Equality and Diversity category in the 2014 Civil Service Awards;
- established regular "challenge it/change it" sessions run by all LAA Senior Leaders to tackle bullying and harassment;
- enhanced the role of our Engagement Champions to include being a first port of call on discrimination, bullying and harassment issues; and
- launched the LAA Leadership Development Programme to support the diverse representation of staff at senior grades.

We report on specific actions under the MoJ Equality Objective framework, details of which are available on the Justice website at:

<https://www.gov.uk/government/publications/ministry-of-justice-equality-objectives-2012-2016>

Employment of disabled persons

The LAA has adopted MoJ policies in respect of the employment, training, career development and promotion of people with a disability. These include the *MoJ's Equal Opportunity and the Disability Policy* and the *Ability Manual*. Our people have access to the MoJ Reasonable Adjustment Support Service and Civil Service Positive Action Coaching and career development programmes targeted to support people with a disability.

Gender

At 31 March 2015, from the gender data available, the LAA consisted of 925 female and 657 male permanent employees.

Our year in focus

This chapter reports on the LAA's purpose, its providers, and its people.

This is our second year as an executive agency during which we have seen a number of improvements that have had a positive impact on the way we work as an organisation and in our interaction with providers. This was achieved whilst continuing to deliver strong performance against our three year plan.

Our achievements in 2014-15

The LAA has continued to work to deliver its commitments in the 2014-15 Business Plan and against its three SOs in line with the four key themes of Civil Service Reform: more digital; more skilled; improved policy making; unified, open and accountable.

The main achievements of this year include:

- Strong performance across all KPIs – detailed later in this section on page 15;
- making the CCMS available voluntarily for our civil provider base;
- good progress in the CCP with HMCTS transferring responsibility for processing legal aid applications to the three designated processing sites within the LAA and increased take up of eForms;
- development and delivery of a leadership programme to support our future leaders;
- progress on a Government wide initiative to transform the way we work, introducing new technology allowing our staff to work flexibly; and
- staff engagement continued to rise with 89% of staff participating in the annual staff engagement survey.

Our Purpose

Delivering legal aid efficiently and effectively as part of the justice system

Strategic Objective 1

Improve casework to reduce cost, enhance control and give better customer service

Deliver efficient and excellent customer service

Improve our processes for paying bills and processing applications

Deliver value for money

Strategic Objective 2

Improve organisational capability to meet the challenges ahead, including developing and engaging our people

Develop our staff and improve levels of engagement

Improve performance management and learning and development

Develop capability within the organisation ensuring we are ready for Digital by Default

Strategic Objective 3

Build and maintain strong partnerships to secure quality provision and contribute fully to wider justice and Government aims

Contribute to wider justice system aims contained in Transforming Justice Programme





Work positively with other Government departments

Working with providers to ensure provision of quality service

Our performance against our three strategic objectives

The milestones and commitments have been tracked and monitored through the LAA's performance management framework which includes KPIs that measure significant elements of our day to day work: (i) service delivery; (ii) finance & efficiency; (iii) people & capability and (iv) reputation. Additionally, the performance management framework also measures key milestones in relation to the delivery of the LAA reform programmes.

Key for delivery milestone reporting

-  Achieved
-  Largely achieved
-  Partially achieved
-  Not achieved








The LAA has a performance framework that sets out five KPIs for 2014-15 to monitor progress and performance against. Throughout the year the results were reported to the Executive Management Team, the LAA Board and the MoJ Executive Management Committee. Progress was communicated to all LAA staff via our intranet site on a monthly basis.

For 2014-15, we achieved all five KPIs, and the information below provides further detail.

Strategic Objective 1:

Improve casework to reduce cost, enhance control and give better customer service.

Milestones aligned to Strategic Objective 1

-  Increase the speed with which we make both payments and assessments of eligibility whilst maintaining quality.
-  Continue to digitise our services and processing.
-  Review the casework operating model following implementation of the provisions of the Legal Aid, Sentencing and Punishment of Offenders (LASPO) Act 2012, Transforming Legal Aid, and new IT systems for civil cases (CCMS).
-  Work closely with providers to reduce further the net error rate on payments to providers and on eligibility assessments.
-  Develop criminal online applications and billing (including roll out of crime eForms).
-  Continue to increase gross collections through Crown Court Means Test scheme, improve collection rates, cash and secured debt ratios and consequently the savings realised.
-  Maintain delivery of a high quality and efficient criminal defence service to clients through PDS.

We continue to make good progress against our objective to improve casework and control. Our focus on rolling out the CCMS and crime eForms has supported our work to continue to digitise our services and is a key part of our commitment to ensuring we move to working fully online with our providers. In addition we have launched a new Civil Legal Advice digital service which is simpler, clearer and faster for people to use and we have moved the processing of family mediation claims online. Alongside these changes we have invested strongly in continuous improvement and are committed to an ongoing review of business processes. We have made a number of business improvements in 2014-15 and will continue to do so as more work is processed on the CCMS and as LAA takes full responsibility for criminal applications.

We have also continued our work to increase our collections through the Crown Court Means Test scheme and we collected an additional £2m in 2014-15 compared to 2013-14.

We have seen improvements in processing applications and bills and have maintained strong financial control throughout 2014-15.

Linked to the following Key Performance Indicators:

KPI: Financial Management

- Agency administration costs – Monitors the delivery of efficiencies and cost savings required to enable the Agency to manage its operations within the allocated administration budget.
- Legal Aid Fund – Monitors the legal aid expenditure, within the allocated budget, including the delivery of savings related to the implementation of reforms.
- Assurance – Monitors the accuracy and compliance of legal aid applications and payments.

We also continued our programme of financial stewardship working with providers, monitoring the accuracy with which we grant applications for legal aid and process bills. Testing in this area showed an error rate of 0.65% for the year.

KPI: Operational Delivery

- Case Management – Measures performance of our core processing functions – making assessments of eligibility, dealing with amendments and the payment of bills for civil and crime work.
- Contract Management – Monitors the management of contract performance by providers, including maintaining the low error rate and continuing the reduction of incorrect bills submitted.
- Public Defender Service – Measures the performance of the Public Defender Service, focusing on value for money, quality and the proportion of duty calls accepted locally.
- IT Service – Measures the customer service delivered to staff in the LAA and improved service availability in relation to system outages.

advocate bills our target was a reject rate below 10%, and in 2014-15 we achieved 8.9%.

Throughout the year we have monitored the availability of our IT systems, which support the processing of applications and bills, and have taken appropriate action to ensure any system issues have not significantly impacted performance. We have also put in place a structured review of system performance with MoJ and IT suppliers to improve system performance as a whole.







The PDS provides high quality defence representation in all types of criminal case and accepted 98% of duty calls (target 90%). In 2014-15 the PDS enhanced its level of service by creating a specialist advocacy unit with particular emphasis on serious and complex Crown Court cases.

In 2014-15 we sustained monthly performance above target levels for the processing of civil applications (97% in 20 working days). We processed civil bills (99% in 25 days) and crime bills (98% in 20 working days) quicker than in previous years as part of our work to move towards payment in a month. Additionally, through provider visits and joint working between our case and contract management teams, we continued to reduce reject rates. Our target for civil bills was to have a reject rate of below 15%, and we achieved 9.2% in 2014-15. For

Strategic Objective 2:

Improve organisational capability to meet the challenges ahead, including developing and engaging our people.

Milestones aligned to Strategic Objective 2

-  Improve engagement with our people through promoting local teamwork and improving the immediate working environment, getting communications right and investing in skills.
-  Embed talent management by identifying and developing staff with potential to progress.
-  Grow advocacy capability in PDS.
-  Continue to engage with the MoJ wider capability plan to develop the right level of capability within the LAA.
-  Embed Learning & Development activities and support each member of staff in completing their minimum five days of learning and development in the year.
-  Implement the Digital by Default legal aid services, including enhancing provider access to LAA online services.

We continue to make good progress on increasing capability within the LAA. During 2014-15 we have focused on investing in skills through the creation of new development programmes and through the continued promotion of CSL. In particular we have developed a leadership programme to invest in our future leaders providing focused leadership development to middle and senior managers including dedicated training opportunities, master classes and one to one mentoring. We also launched a Management Skills Programme for all managers designed to enhance manager's skills, help them inspire their teams and equip them to manage during a period of change. In addition we have launched the Operational Delivery Profession to LAA staff which is a Government wide profession providing staff with the opportunity to study for academic qualifications in operational delivery to enhance the skills they already use day to day.

We have also invested in our staff through our implementation of the Government wide TW3 initiative. We are creating a workplace for staff with modern technology and better utilisation of space underpinned by a change to a more flexible working culture.

KPI: People

- People, Capability and Staff Engagement – Monitors how successful we are in improving staff engagement and reducing the number of working days lost through staff absence.

Results of the 2014 staff engagement survey showed an improvement on results from 2013, with an increase of five percentage points in the engagement index and a participation rate of 89%. The results also demonstrated improvements in key areas as highlighted in our 2014 national engagement plan which set out how we intended to improve in areas highlighted in the survey. The 2015 national engagement plan has been shared with staff.

We also made improvements to our sick absence results. Our staff took on average of 7.1 (2013-14: 7.59 days) sick absence days per person against the 7.6 days Civil Service average used as a benchmark.

Strategic Objective 3:

Build and maintain strong partnerships to secure quality provision and contribute fully to wider justice and Government aims.

Milestones aligned to Strategic Objective 3

- ✓ Implement MoJ policy to deliver a competitive mechanism for crime contracts and develop and implement a new provider management/ commissioning strategy.
- ✓ Support CJS efficiency and service development initiatives.
- ✓ Draw on the PDS's knowledge and experience of the criminal defence market to inform policy development and decision making.
- ✓ Work with our partners to deliver our change programmes – LAT, IDP and CCP.
- ✓ Continue to work closely and engage with providers including through the launch of a new channel strategy for our provider customer service.

We have made good progress working with others. We have worked in partnership with providers not only to implement new reforms but also to roll out new online service provision for both crime and civil applications and civil bills. We also provided help, support and training to providers to ensure providers had the skills and information necessary to implement the changes. We worked closely with providers to improve our operating models and have regular engagement on key operational issues with the main representation bodies. We continue to work closely with policy colleagues and support wider CJS efficiency initiatives and share our expertise to support policy decision making.

We have successfully tendered new contracts for Own Client crime work, Civil Legal Advice telephone services, community care, mental health and mediation and have run a tender to introduce competitively tendered contracts to undertake criminal legal aid. These contracts are due to begin in January 2016.

We have launched our channel strategy. The strategy is designed to develop how we manage contact with providers, enhance existing channels to improve customer satisfaction, and improve the customer experience for providers and clients. We have also continued to deliver against our statutory requirements for answering correspondence and complaints and improve our customer service.

Linked to the following Key Performance Indicators:

KPI: Correspondence

- Monitors our customer service response to queries, correspondence and complaints, including Freedom of Information and Data Protection Act requests.

KPI: Customer Service

- Deal with provider and client queries in a timely and satisfactory manner, ensuring our casework volumes are being handled appropriately, and avoid errors, rejects, complaints and delays to processing.

We maintained performance in answering correspondence. We met our statutory targets in answering FOI and DPA requests with 94% of FOIs answered in 20 days and 98% of DPA requests answered in 40 days. We also ensured we dealt with complaints and MP correspondence in a timely fashion with 100% of complaints answered in 20 days and 100% of MP correspondence answered in 20 days.

As part of our work to improve customer service we have improved our performance on call answering for our Civil Certificated helpline. It was a particularly challenging year for the helpline as we saw an increase in the volume of calls received, however we continued to keep call waiting times low, on average they were below two minutes and 48 seconds and the abandoned call rate was 10.47% below the 12% target for 2014-15.

Management Commentary

This section provides commentary to support the financial statements and our performance during the past year.

Commentary on 2014-15 financial results

The financial statements are set out from pages 53 to 90. The LAA Accounts comprise of six reporting segments; Civil Legal Help, Civil Representation, Crime Lower, Crime Higher, Central Funds and Administration, in line with the day to day budgeting and management of our expenditure. Note 2 to the Accounts on page 66 details the net operating expenditure for each of these segments and notes 2-6 set out expenditure and income in detail for each of the segments.

The most significant item on the LAA's Statement of Financial Position is the provision for work that has been completed by solicitors, barristers, and advice agencies but has not yet been billed. The value of this work in progress (WIP) is estimated by taking the number of cases that have been reported as started and estimating the activity that has taken place on these using historical profiles of case costs and durations for each individual scheme of legal aid. The majority of the remaining liabilities of the LAA are for bills received but not yet processed, which are treated as trade payables, and any unpaid work reported in payment on account claims, which are treated as accruals.

The LAA's receivables balance includes money due from clients who have received legal aid with the majority being due under a statutory charge. Statutory charges arise when legally aided clients successfully gain or retain an asset as a result of the legal assistance they receive. In these circumstances the client must repay the

cost of their legal aid. The client has the right to defer this repayment and if they do the LAA gains security over the debt by registering a formal charge over the relevant asset. Interest is charged against this debt at 8% simple interest and the debt is only repayable on sale of the asset, although clients are encouraged to repay debts to avoid interest charges. These debts are quantified through a case balancing process that takes account of the total value recoverable for the client and then limits the amount recoverable by the cost to the LAA.

The remainder of the receivables balance is from money owed by various providers of legal aid that have arisen from the recoupment of payments on account on settled cases and the recovery of overpayments.

Results for the year

Administration net operating costs reflect the administration costs of running the LAA. The Legal Aid Fund is further subdivided into Civil Legal Help, Civil Representation, Crime Lower, and Crime Higher. Central Funds net operating costs reflects the spend on orders made to acquitted defendants who have privately funded their legal representation.

Between 2013-14 and 2014-15 we have seen an overall reduction in net expenditure of £244.0 million and the main activities for each of the reportable operating segments that have impacted upon this reduction are detailed below:

Civil Representation: Spend has decreased since 2013-14 as the reforms introduced in April 2013 as part of the LASPO Act 2012 have reduced the volume of cases. In addition, the volume of Public Family cases, which deal with issuing Care and Supervision Orders to protect vulnerable children,

has reduced year on year. The Public Law Outline (PLO) in April 2013 introduced new rules for how these cases progress through the family court, leading to an increase in the volume of cases in 2013-14. This impact has reduced in 2014-15, leading to lower spend.

Civil Legal Help: Spend has decreased as the impacts of the LASPO Act 2012 continue to reduce the ongoing levels of activity in this area.

Crime Higher: Spend has increased following a rise in the volume of Crown Court sitting days and an increase in the average cost of cases in the LGFS. The average cost has increased due to a rise in the average number of pages of prosecution evidence used in cases resulting from more complex investigations and the associated electronic evidence.

Crime Lower: Spend has decreased with reduced volumes of cases in the magistrates' court. The 8.75% fee reductions introduced as part of LAT in December 2013 have also driven down the average cost of the cases in comparison to the prior year.

Central Funds: Reduced spend reflects lower volumes and cost per case following changes to scope and remuneration rates introduced in October 2012.

Administration: Underlying administration cash spend has reduced by £3.1 million year on year as we continue to drive down controllable costs in a sustainable way. We have realised lower costs for the expenditure paid to HMCTS for processing Criminal Legal Aid on behalf of the LAA; this activity was transferred to the LAA during the year reducing costs by £1.5 million (see note 4). Staff costs have, at the same time as increasing processing workload, reduced by £0.7 million

year on year (see note 3, page 67). Office, IT and service running costs have reduced by £0.7 million (see note 4, page 70).

Total administration costs have increased by £3.3 million due to non cash costs increasing by £6.5 million netted down by the cash savings outlined above. Depreciation and amortisation have increased by £5.4 million, which largely relates to the capitalisation of the CCMS in year (see note 4, page 70). The remaining £1.1 million increase relates to internal recharges for shared services from within MoJ, mainly due to changes in accounting treatment and recharge methodology (see note 4, page 70).

Going concern

In accordance with the *Government Financial Reporting Manual 2014 to 2015 (FReM)* issued by HM Treasury, the financial statements for the LAA in respect of the financial year to 31 March 2015 are prepared on a going concern basis. The going concern basis is set out in note 1a of the LAA's financial statements.

The Statement of Financial Position at 31 March 2015 shows net liabilities of £651 million (2013-14: £731 million net liabilities).

Provision for Resource and Capital Expenditure, and Annually Managed Expenditure for 2015-16 for the functions performed by the LAA, will be included in the estimates of the MoJ. These estimates are voted annually by Parliament, and there is no reason to believe the MoJ's future sponsorship and future Parliamentary approval will not be forthcoming.

Our plans for the future

2015-16 will be the final year of our three year business plan and we will continue with the same SOs that have brought us much success during a period of significant change for staff and providers in the way we work.

Delivering our Change Programmes

The LAA has made a number of contributions to the Secretary of State's Transforming Justice agenda to ensure legal aid is credible and targeted on those cases that require it. During 2015-16 our three main programmes of reform (IDP, LAT and CCP) will come to a conclusion.

Integrated Delivery Programme (IDP)

From 1 October 2015 use of the CCMS (a significant element of the IDP) will become mandatory for all providers. Contract notices have been sent to all providers to advise them of the system becoming mandatory.

Legal Aid Transformation (LAT)

We will continue to work with MoJ on the implementation of the LAT programme.

Crime Change Programme (CCP)

The final stages of the work to transfer criminal application processing from HMCTS to the LAA will complete when the final regions transfer in early 2015-16. Criminal Application teams have been set up in Birmingham, Liverpool and Nottingham regional offices. The programme also plans to mandate the use of the eForm for applications for criminal legal aid. The MLRA link will also notify LAA Criminal Application Teams of actions required as cases progress through the system, working more effectively with our partners in HMCTS.

The Crime Billing Online project intends to continue iterative development of its advocates' bill submission application for Crown Court matters, with the longer term aim to also include full submission of solicitor Crown Court bills.

Improving the way we interact with our providers

Channel Strategy

The LAA has launched a Channel Strategy that is designed to further develop how we interact with providers. Making it better and easier to get in touch with the LAA will be demonstrated through:

- Improvements in the speed of answer and reduction in abandoned call rates to the Civil Certificated helpline which is managed by the Customer Services teams;
- reducing the number of telephone numbers and email addresses used to contact the LAA; and
- supporting providers as they increase their levels of digital working.

Making the Legal Aid Agency a better place to work

Workplace Transformation: The Way We Work (TW3) and Intrinsic Motivation Project (IMP)

The LAA will continue to strive to be a modern workplace embracing mobile technology and smart and flexible ways of working. TW3 is a Cabinet Office led programme and part of wider Civil Service Reform. At MoJ, TW3 is being led by the Corporate Services Group.

The introduction of new technology will transform our workplace environment, creating more space and promoting flexible working with the resources we have and where savings can be made. This

will also be the driver for changing the way teams and managers work together by offering staff more choice and flexibility over location, when to work and technology. It is important to maintain control during this transformation, therefore it is being implemented cautiously.

We will continue to build on the work we have done as a team on making our organisation a better place to work.

Signed for and on behalf of the Legal Aid Agency

A handwritten signature in black ink, appearing to read 'Matthew Coats', written in a cursive style.

Matthew Coats

Chief Executive and Accounting Officer of the
Legal Aid Agency
5 June 2015

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Sustainability report

This chapter sets out how we have complied with both organisational and Government targets to reduce our carbon footprint and impact upon our environment.

Introduction

This is the Legal Aid Agency's (LAA) second Sustainability report as an executive agency, prepared in accordance with the 2014-15 guidelines laid down by HM Treasury in *'Public Sector Annual Reports: Sustainable Reporting'* published at:

<https://www.gov.uk/government/publications/public-sector-annual-reports-sustainability-reporting-guidance-2014-to-2015>

This report matches the scope and details laid out in the Greening Government Commitments (GGC). GGC forms the primary Sustainable Development (SD) driver across Government and carries a series of improvement targets against areas such as carbon from energy, waste, water and biodiversity. Further details on GGC can be found at:

<https://www.gov.uk/government/policies/making-sustainable-development-a-part-of-all-Government-policy-and-operations>

Business Plan commitments, and Overall Sustainable Development Strategy

Ministry of Justice (MoJ) Business Plan 2012-2015 sustainability commitments as set out in the Business Plan Annex are:

- i. Assess and manage environmental, social and economic impacts and opportunities in its policy development and decision making. MoJ demonstrates a commitment to embedding

SD principles into day to day working practices across all reporting bodies. To effectively enable this, MoJ holds monthly SD Board meetings, chaired by a Board level SD Champion, to steer and agree programmes of work and improve working practices across the different disciplines of each reporting body.

- ii. Implement the Department's plan to deliver on the GGC, supplying quarterly information and contributing to the Annual report on progress. GGC was launched on 1 February 2011 and requires Government departments to take action to significantly reduce environmental impact by 2014-15 (compared to a 2009-10 baseline). GGC objectives are a key priority of the MoJ Estates Directorate which are managed, reviewed and monitored by the MoJ SDT.
- iii. Sustainable procurement: Procure from small businesses with the aspiration that 25% of contracts should be awarded to Small and Medium Enterprises (SME).

The MOJ is one of the top performing departments in Government in respect of expenditure with SMEs. In 2013-14, £1.7bn (37.2%) of MoJ spend went to SMEs, exceeding the Government's aspiration of 25%. Further details of MoJ SME Action Plan can be found at:

<http://www.gov.uk/government/organisations/ministry-of-justice/about/procurement>

Our overall sustainable development strategy includes the following:

- i. Social and Environmental Awareness: The MoJ, through the SD team, encourages external partnerships, through

Memorandums of Understanding, to promote learning and skills training in all SD work streams therefore promoting restorative justice, reducing reoffending and supporting the Government's SD strategy.

- ii. Working towards GGC targets: The LAA will continue working with the MoJ's SD team to align and incorporate the LAA into their long term Sustainability Strategy in delivering the GGCs in 2015. The focus will be the provision of a robust baseline against which the LAA can demonstrate ongoing progress. As part of this work the LAA will compile and maintain necessary data for budget setting for carbon allowances.
- iii. Where possible, the LAA's intention is to ensure joined up services, contracts and facilities are in place so data required for SD reporting is available from a central source.

Biodiversity and natural environment

Biodiversity was not a significant consideration for the LAA as buildings are located within city centre locations and do not have outside space. The LAA therefore did not collect any data on this aspect of sustainability.

Energy

		2014-15	2013-14
Non financial indicators (Tonnes of CO² equivalent (tCO₂e))	Total gross emissions for scopes 1 & 2	727	597
	Electricity: green/renewable	N/A	N/A
	Total net emissions for scopes 1 & 2 (i.e. having removed renewable elements)	727	597
	Gross emissions scope 3 travel	127	121
	Total gross reported emissions	854	718
Non financial indicators (Megawatt hour MWh)	Electricity: Purchased, Grid, CHP & non renewable	1,181	1,027
	Electricity: renewable	N/A	N/A
	Gas	774	755
	Other energy sources	N/A	N/A
	Total energy	1,955	1,782
Financial indicators (£000)	Expenditure on energy (including CRC) (£000)	£146	£226
	Expenditure on accredited offsets (e.g. Government Carbon Offsetting Facility)	N/A	N/A
	Expenditure on official business travel (including GCOF) (£000)	£1,459	£1,247

Overall Green House Gas emissions have increased in comparison to 2013-14 as a result of increases in both gas and electricity usage, and the year on year increase in the tCO₂e conversion factor for gas and electricity usage.

Throughout 2014-15 there has been a small reallocation of workforce to the LAA and some recruitment through Transfer of Grant (ToG) and the transfer of the National Taxing Team from Her Majesty's Courts and Tribunals Service (HMCTS). This increase in workforce has impacted on utility usage.

There has been a 3% decrease in travel emissions on rail and road travel due to a decrease in distances travelled.

Domestic flight information is now available and has been reported in the gross emissions scope 3 travel line in the table below for 2014-15 and the 2013-14 comparative figure.

Expenditure on energy has decreased by 35% in 2014-15 compared to 2013-14 while total energy used has increased by 10% in the same period.

The 2013-14 comparative figures have been restated due to more detailed information becoming available.

Waste

Waste type (tonnes)		2014-15	2013-14	
Non financial indicators (tonnes)	Non hazardous waste	Landfill Waste	N/A	N/A
		To recovery (AD & Composting)	N/A	N/A
		To incineration	N/A	N/A
		To incineration with energy recovery	N/A	N/A
		Reused/recycled waste	127	92
		Energy from waste	N/A	N/A
		Total waste arising	127	92
Financial indicators (tonnes)	Non hazardous waste	Landfill Waste	N/A	N/A
		To recovery (AD & Composting)	N/A	N/A
		To incineration	N/A	N/A
		To incineration with energy recovery	N/A	N/A
		Reused/recycled waste	8.2	11.8
		Energy from waste	N/A	N/A
	All types	Total costs (£000)	£8.2	£11.6

There has been an increase in the tonnage of waste in 2014-15. This increase is particular to the Jarrow site which houses the LAA's National Filing Centre. The file destruction programme recommenced in 2014-15 after a hiatus in which changes to retention and destruction policies were reviewed before an appropriate plan was actioned. All general waste created by the LAA is disposed of through individual contracts at a local level.

Water

Water		2014-15	2013-14
Non-Financial Indicators (cubic metres)	Total water consumption (cubic meters-m ³)	N/A	N/A
Financial indicators	Total water supply costs (£000)	£14.3	£17.8

Available financial data indicates a reduction of 19% in the cost of water used by the LAA in 2014-15 when compared to 2013-14.

Paper

Paper		2014-15	2013-14
Cost excluding VAT (£000)		£30.7	£36.9

Available financial data shows a 17% decrease in expenditure on paper in 2014-15 compared to 2013-14.

The LAA is continually looking for ways to improve data collection to accurately monitor sustainability deliverables. Information is submitted in quarterly returns to the MoJ.

Remuneration report

This chapter summarises the LAA's policy on remuneration of Executive Board Members and Non Executive Board Members; it also provides detail of actual costs and contractual arrangements.

The Remuneration report has been prepared in accordance with the requirements of the *FReM* as issued by HM Treasury.

The Prime Minister sets the Remuneration Policy of Senior Civil Servants (SCS) following independent advice from the Senior Salaries Review Body. The salaries of LAA Executive Board members were set following discussions between the Permanent Secretary of the MoJ and her Director Generals in accordance with the rules of the *Civil Service Management Code*.

The LAA does not have a Remuneration Committee. The key functions of this Committee are dealt with through the MoJ Workforce Committee. The MoJ Workforce Committee is chaired by the Permanent Secretary and attended by all Director Generals and Chief Executives of the National Offender Management Service, HMCTS and the LAA. The committee meets on a monthly basis to manage talent, capability and people resources. In addition, the committee is responsible for ensuring the Department has a workforce that is the right size, has the right skills, is well managed, properly motivated and correctly deployed.

The tables in this report have been subject to audit by the external auditor, the Comptroller and Auditor General, appointed under the Government Resources and Accounts Act 2000.

Remuneration Policy

Executive Board Members

Service contracts

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

The Executive Board Members covered by this report hold appointments which are open ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Performance process

SCS follow the Cabinet Office guidelines for SCS Performance Management Framework. There are two 'formal' Performance Management Review (PMR) discussions a year and then regular one to one meetings to monitor progress and ensure all objectives were still relevant.

Total amount of salary and fees

Salary and allowances covers both pensionable and non pensionable amounts and includes, but may not necessarily be confined to: gross salaries; overtime; reserved rights to London weighting or London allowances, recruitment and retention allowances; private office allowances or other allowances to the extent they are subject to UK taxation and any ex-gratia payments. It does not include amounts which are a reimbursement of expenses directly incurred in the performance of an individual's duties.

All taxable benefits

The monetary value of benefits in kind covers any benefits provided by the employer and treated by Her Majesty's Revenue and Customs (HMRC) as a taxable emolument.

The benefits in kind stated for Executive and Non-Executive Board Members are estimates, the final values are to be agreed between the LAA and HMRC, and paid using a PAYE Settlement Agreement.

Money or other assets received as a result of performance achievement for the relevant year

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2014-15 relate to the performance in 2013-14 and the bonuses reported in 2013-14 relate to the performance in 2012-13.

All pension related benefits

Section 229 of the Finance Act 2004 determines the maximum annual level of pension savings that can be accrued under a defined benefit arrangement before any taxation is charged. The amount of savings shown in Table D is the increase in the value of the individual's promised benefits over the pension input period (which is the financial year for the LAA). Any increase is the difference between the value of the individual's benefits at the start of the pension input period (1 April 2014) and the value of the individual's benefits at the end of the pension input period (31 March 2015); this also incorporates any increase to pensionable pay.

Regulations specify a modification to the HMRC rules for this purpose, in order to value the benefits HM Treasury has advised pension schemes to use a multiplier of 20.

Exit packages

Note 3 to the 'LAA Notes to the Financial Statements' sets out information in relation to exit packages.

There was no compensation payable to Executive Board Members in the event of early termination.

Non Executive Board Members (NEBMs)

Three NEBMs have been recruited through an open competition in accordance with the Constitutional Reform and Governance Act 2010. They are appointed on merit and in recognition of their respective abilities and experience by a panel including a MoJ Non Executive Director and delegated subject specialist as relevant. The Chief Executive appointed the NEBMs for a fixed period of three years.

NEBMs are not members of the Principal Civil Service Pension Scheme (PCSPS), and were not entitled to any other benefits or remuneration.

If a NEBM appointment was terminated for reasons other than the expiry of their term, the Secretary of State for Justice could determine that compensation is payable based on the nature of the termination and the length of the term remaining.

Details in relation to NEBMs service terms, benefits or remuneration are included in Tables E and F.

Executive Board Members

The Chief Executive and all Executive Board Members followed the PMR process highlighted in the performance process section on page 31. Progress and objectives were monitored twice a year by the Human Resources team. The performance measures for each member of the Executive Board Members have been met.

Table A: Senior employees in post at 31 March 2015 - Employment costs

Executive Board Members	2014-15					2013-14				
	Total amount of salary and fees	All taxable benefits (to nearest £100)	Bonus Payments	Pension related benefits (to nearest £1,000)	Total (to nearest £1,000)	Total amount of salary and fees	All taxable benefits (to nearest £100)	Bonus Payments	Pension related benefits (to nearest £1,000)	Total (to nearest £1,000)
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Matthew Coats ¹ <i>LAA Chief Executive and Director General of MoJ Corporate Services</i>	140-145	0.1	10-15	65	220-225	140-145	-	10-15	41 ⁸	195-200
Hugh Barrett <i>Director of Commissioning and Strategy</i>	140-145	-	10-15	32	185-190	140-145	-	10-15	29 ⁷	180-185
Owen Mapley <i>Director of Finance and Performance (Left 10 April 2014)</i>	0-5 (full time equivalent 110-115)	-	-	1	5-10	110-115	-	10-15	45	165-170
Catherine Little ⁴ <i>Director of Finance and Performance (From 1 April 2014)</i>	90-95	-	- ⁵	34	125-130	N/A	N/A	N/A	N/A	N/A
Ruth Wayte ⁶ <i>Principal Legal Advisor to the LAA</i>	95-100	-	-	24	120-125	95-100	-	-	25 ^{7,8}	120-125
Shaun McNally CBE <i>Director of Case Management</i>	90-95 ²	53.1 ³	10-15	11	165-170	90-95 ²	41.6 ³	-	51	180-185

1. Since 3 June 2013 Matthew Coats has also been employed as the Director General for MoJ Corporate Services. His remuneration covers both roles and is also reported in the MoJ Accounts to denote his dual responsibilities.
2. Shaun McNally received an Excess Fares allowance of £9,761 in respect of permanent relocation of his place of work. The allowance was paid as a lump sum and is for a period of 3 years. A pro rata amount of £3,254 is included in the figure above.
3. As Director of Case Management, the post covers all Case Management teams in regional offices and therefore a dual workplace agreement was entered into on 1 April 2013. The costs above illustrate the benefit in kind for all travel to and from dual workplace locations.
4. Catherine Little was the Acting Director of Finance and Performance from 1 April 2014 and was made permanent from 15 December 2014.
5. Catherine Little received a bonus for performance during 2013-14 which was unrelated to her current role on the Board.
6. Ruth Wayte is remunerated through a third party agency.
7. For these members the pension related benefits of 2013-14 have been calculated on their PCSPS service from 1 April 2013.
8. Amounts have been restated as revised information has been received during the year from our pension provider.

Table B: Banded remuneration of the highest paid Executive Board Member

	2014-15	2013-14
Band of highest paid Executive Board Member's total remuneration (£000)	155-160	155-160
Median total remuneration (£)	24,507	24,751
Ratio	6.4 : 1	6.36 : 1

Reporting bodies are required to disclose the relationship between the salary of the highest paid Executive Board Members in their organisation and the median earnings of the organisation's workforce.

The banded remuneration for the highest paid Executive Board Member in the LAA in the financial year 2014-15 was £155-160k (2013 -14: £155-160k). This was 6.4 times the median remuneration of the workforce, which was £24,507 (2013-14: £24,751).

In 2014-15, one contractor (2013-14: 2) received banded remuneration of £190-195k which was in excess of the highest paid Executive Board Member.

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

Table C: Executive Board Members – Employment contracts

Executive Board Members	Contract start date	Term served (years)	Notice period (months)
Matthew Coats	27 February 2012	3	3
Hugh Barrett	1 December 2008	6	3
Owen Mapley	1 December 2010	4	3
Catherine Little	1 April 2014	1	3
Ruth Wayte	7 July 2003	11	3
Shaun McNally CBE	22 October 2012	2	3

Civil service pension benefits

Pension benefits are provided through the Civil Service pension arrangements. Civil servants may be in one of four defined benefit schemes; either a final salary scheme (Classic, Premium or Classic Plus); or a Career Average scheme (Nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium, Classic plus and Nuvos are increased annually in line with Pensions Increase legislation. Members may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

The Executive Board members are members of the Classic, Premium, and Nuvos Schemes. Employee contributions are salary related and range between 1.5% and 6.85% of pensionable earnings for Classic and 3.5% and 8.85% for Premium, Classic plus and Nuvos.

From 1 April 2015 a single set of employee contribution rates across the PSCPS will be based on the member's pay band, regardless of the Scheme the member is contributing to. Members of the Classic Scheme and Alpha members previously in Classic as at 31 March 2015 will see an increase in their contribution rate.

Classic Scheme

Pension benefits in Classic accrue at the rate of 1/80th of final pensionable earnings for each year of reckonable service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement.

Premium Scheme

For Premium Scheme, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of reckonable service. The Premium Scheme does not attract an automatic lump sum.

Nuvos Scheme

In Nuvos a member builds up a pension based on their pensionable earnings during their period of Scheme membership. At the end of the Scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that Scheme year and the accrued pension is updated in line with Pensions Increase legislation.

In all cases members may elect to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

Partnership Pension Account

The Partnership Pension Account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable earnings (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable earnings to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the Scheme if they are already at or over pension age. The Normal Pension Age (NPA) is 60 for members of Classic, Premium and Classic plus and 65 for members of Nuvos. Table D details Executive Board Member's pension entitlements.

Pension benefits for civil servants seconded to the LAA were provided through the Civil Service pension arrangements managed by the MoJ. For further information please refer to:

www.civilservicepensionscheme.org.uk

Alpha Scheme

A new pension scheme, Alpha was introduced on 1 April 2015. The majority of PSCPS members (and new employees) will be enrolled into this Scheme.

Alpha provides a defined benefit pension based on a Career Average basis, therefore, members will build up a pension benefits based on a percentage of how much they earned each year. The NPA in Alpha is the later age of 65, or the member's State Pension Age.

Further details of this Scheme are available at:

www.civilservicepensionscheme.org.uk/members/the-new-pension-scheme-alpha/

Table D: Executive Board Members – Pension costs for the year ended 31 March 2015

	Total accrued pension payable at age 60 at 31 March 2015 and related lump sum	Real movement in pension and related lump sum payable at age 60	CETV at 31 March 2015	CETV at 31 March 2014	Real increase in CETV
	£000	£000	£000	£000	£000
Matthew Coats ¹	Pension 55-60 Lump sum 0	Pension 2.5-5 Lump sum 0	797	711 ²	43
Hugh Barrett ¹	Pension 15-20 Lump sum 0	Pension 0-2.5 Lump sum 0	364	309	29
Owen Mapley ¹	Pension 10-15 Lump sum 0	Pension 0-2.5 Lump sum 0	138	138	0
Catherine Little ⁴	Pension 2.5-5 Lump sum 0	Pension 2.5-5 Lump sum 0	35	15	8
Ruth Wayte ¹	Pension 0-5 Lump sum 0	Pension 0-2.5 Lump sum 0	48	23 ²	15
Shaun McNally CBE ³	Pension 30-35 Lump sum 95-100	Pension 0-2.5 Lump sum 0-2.5	519	486	6

1. Matthew Coats, Owen Mapley, Hugh Barrett and Ruth Wayte are members of the Premium Scheme of the PCSPS.
2. Amounts have been restated as revised information has been received during the year from our pension provider.
3. Shaun McNally CBE is a member of the Classic Scheme of the PCSPS.
4. Catherine Little is a member of the Nuvos Scheme of the PCSPS.

Cash Equivalent Transfer Value (CETV)

A CETV is the actuarially assessed capital value of pension scheme benefits accrued by a member at a point in time. The valued benefit also includes any contingent spouse's pension payable by the scheme. When a member leaves their scheme and chooses to transfer their accrued benefits, a CETV payment is made by the scheme to another registered pension scheme.

The pension figures shown relate to accrued benefits for total membership of the Scheme and include the value of any pension benefits transferred into the PCSPS from other pension arrangements. CETVs are calculated in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) regulations 2008 and

do not take account of any actual or potential reduction in benefits resulting from Lifetime Allowance Tax which may be due when the pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV funded by the employer excluding the effect of fluctuations in the transfer value, such as investment market movements. It does not include the increase in accrued pension in line with inflation or a contribution paid by the employee, but does include the value of any benefits transferred from another pension scheme. Common market valuation factors are used for the start and end of the period.

Non Executive Board Member (NEBM)

NEBMs were part time and their role involved a commitment of 20 days per year during 2014-15. They hold office until the end of the period for which they were appointed.

Any appointments made by the Secretary of the State may be terminated at his discretion.

Employment costs – NEBMs

Table E: NEBMs in post at 31 March 2015 – employment costs

Non Executive Board Member	2014-15		2013-14	
	Total amount of fees	All taxable benefits ²	Total amount of fees	All taxable benefits ²
	£000	£000	£000	£000
John Grosvenor <i>Audit NEBM and Chair of the LAA Audit Committee</i>	10.4 ¹	0.5 ³	10.4 ¹	0.4
Eric Gregory	8.0	0.9 ³	8.0	1.1
Andrew Lockley	8.0	1.3 ³	8.0	1

1. The remuneration includes £2,400 as Chair of the LAA Audit Committee.

2. The cost of expenses varies according to the distance between the NEBMs home and the LAA's office, other travel commitments required by their role, and the time commitment of the individual NEBM. NEBMs were reimbursed for travel and other expenses including any taxation paid on those expenses.

3. For the Non Executive Board Members the travel and subsistence expense claims are, under the HMRC rules, subject to Income Tax and National Insurance, this is paid by the LAA using a PAYE Settlement Agreement.

Table F: NEBMs – employment contracts

Non Executive Board Member	Contract start date	Term served (years)
John Grosvenor	1 November 2012	2
Eric Gregory	1 January 2013	2
Andrew Lockley	31 January 2013	2

No NEBMs left the LAA during 2014-15.

Signed for and on behalf of the Legal Aid Agency



Matthew Coats

Chief Executive and Accounting Officer of the Legal Aid Agency
5 June 2015

Statement of the Accounting Officer's responsibilities

Under section 7(2) of the Government Resources and Accounts Act 2000, HM Treasury directed the Legal Aid Agency to prepare for each financial year resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the department during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Legal Aid Agency and of its net resource outturn, application of resources, changes in tax payers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual 2014 to 2015* and in particular to:

- Observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the *Government Financial Reporting Manual 2014 to 2015* have been followed, and disclose and explain any material departures in the accounts;
- prepare the accounts on a going concern basis; and
- ensure that, so far as the Accounting Officer is aware, there is no relevant audit information of which the entity's auditors are unaware. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the LAA's auditors are aware of that information.

The Principal Accounting Officer of the MoJ has designated the Chief Executive as Accounting Officer of the Legal Aid Agency. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Legal Aid Agency's assets, are set out in *Managing Public Money* published by the HM Treasury.

Governance statement

The Governance statement is prepared annually. It explains how the Accounting Officer has discharged his responsibility to manage and control the LAA's resources during the year. This statement describes the LAA's governance arrangements and provides an assessment of how we have balanced risk, assurance and control throughout 2014-15.

Introduction

As Accounting Officer, I am responsible for maintaining a sound system of governance, risk management, and internal control that supports the achievement of the LAA's policies, aims and objectives, while safeguarding public funds and LAA assets in accordance with the responsibilities assigned to me in HM Treasury "*Managing Public Money*".

My statement outlines the legal framework in which the LAA operates, reviews the effectiveness of our oversight arrangements, and describes how these have assured me of the LAA's effective stewardship of the public fund and achievement of its business priorities.

Governance Framework

Relationship with the Ministry of Justice (MoJ)

Our 'Framework Document' between the MoJ and the LAA sets out the arrangements for the governance, accountability, financing, staffing and operation of the LAA. It was agreed between the MoJ Permanent Secretary and the LAA's Chief Executive, with the approval of the Lord Chancellor. Our governance arrangements and Framework document can be viewed in full at the GOV.UK website by following this link: [Legal Aid Agency Governance](#)

Relationship with Parliament

The LAA is subject to scrutiny from Parliament. This includes the House of Lords Select Committee, the Public Accounts Committee (PAC), the Justice Select Committee (JSC) and the Parliamentary and Health Service Ombudsman (PHSO). The LAA has participated in the following inquiries during 2014-15:

House of Lords Select Committee on Extradition Law

The committee was appointed on 12 June 2014 to consider and report on law and practice relating to extradition, in particular the Extradition Act 2003. The committee published their report in March 2015, titled 'Extradition: Law and Practice'. There are a number of recommendations in the report that relate to legal aid including the development of a specialist extradition duty solicitor scheme and observations on means testing in extradition cases. Government is considering the detailed recommendations and will publish a formal response.

Public Accounts Committee

The inquiry into the implementation of reforms to civil legal aid aimed to:

- Identify the full costs of the reforms and explore the actions undertaken by the MoJ to understand the wider costs of the reforms to civil legal aid before implementing changes;
- explore the MoJ's understanding of how and why people access civil legal aid; and
- identify how the MoJ intends to better target civil legal aid at those who are eligible and examine the management of the legal aid market, including the quality of the services it pays for.

The LAA have accepted the recommendations addressed to the Agency in the report.

Recommendations specific to the LAA included:

- The LAA should, as promised in its 2012 impact assessment, establish a robust mechanism to identify and address any shortfalls in provision, building on the NAO's analysis, so it can be confident those still eligible are able to access legal aid.
- The LAA should set out targets to improve the quality of legal advice and a plan and timetable to meet those targets. It should do this by identifying and addressing the reasons that providers are failing its quality assurance tests, including whether or not the high failure rate is driven by the decline in legal aid fees.

Justice Select Committee

The inquiry into the impact of changes to civil legal aid under the Legal Aid, Sentencing and Punishment of Offenders Act (LASPO) 2012 examined the identifiable outcomes of the legislation against its previous conclusions and recommendations, as well as considering any new problems which have arisen. The MoJ will respond to the report in the near future.

Parliamentary and Health Service Ombudsman (PHSO)

The LAA has in place a two tier complaints procedure that provides an avenue for complaints to be reviewed objectively before the complainant decides whether or not to refer their matter to the Parliamentary and Health Service Ombudsman through their local MP. The LAA holds regular meetings with our PHSO liaison officer to:

- Discuss progress on individual cases;

- provide updates on changes e.g. policy changes and potential impacts for PHSO; and
- ensure two way sharing of best practice and constructive feedback.

The LAA has also established regular meetings with the PHSO liaison officer and HMCTS as the themes and working relationships are similar.

At the conclusion of an investigation the LAA will take the necessary action or carry out the recommendations made by the PHSO. This can inform changes to processes and ways of working which will have a positive impact on the provision of public services in the future.

LAA's Governance Arrangements

As Accounting Officer, I am supported by the LAA Board, the Audit and Risk Assurance Committee (ARC) and the Executive Management Team. In turn these committees are informed in their decision making by the in depth work and scrutiny of the Quarterly Change Board, the Investment Group, and the National Health and Safety Committee. The oversight of our change programmes has been strengthened through the creation of our Central Change Portfolio Office (CCPO), which provides assurance over delivery and benefits realisation.

This is my second year undertaking the role and responsibilities of the Director of Legal Aid Casework, which was designated to me by the Lord Chancellor. I receive advice from the LAA's Principal Legal Advisor and there are two panels in place to provide independent review of my decisions on funding of individual cases. Please see my full Director of Legal Aid Casework report for further detail on how these functions have been carried out.

The following table sets out who is a formal member and who attends our committees:

Name/Job Title	Executive/ Non Executive	Gender M/F	LAA Board		Executive Management Team		ARC	
			Member	Invitee	Member	Invitee	Member	Invitee
Matthew Coats, LAA Chief Executive <i>Chair of the Board</i>	Executive	M	✓		✓			✓
Hugh Barrett <i>Director of Commissioning and Strategy</i>	Executive	M	✓		✓			
Owen Mapley <i>Director of Finance and Performance (Left 10 April 2014)</i>	Executive	M	✓		✓			✓
Catherine Little <i>Director of Finance and Performance (acting from 1 April 2014 and then permanent from 15 December 2014)</i>	Executive	F	✓		✓			✓
Ruth Wayte <i>Legal Advisor to the LAA</i>	Executive	F	✓		✓			
Shaun McNally CBE <i>Director General of Case Management</i>	Executive	M	✓		✓			
Laurence Lewis <i>Head of Information Technology, Digital and Change</i>	N/A	M		✓		✓		
Ann Beasley <i>General Finance, MoJ</i>	N/A	F		✓				
<i>HR Director</i>	N/A	F		✓	✓			
<i>Head of Corporate Centre</i>	N/A	F		✓	✓			
John Grosvenor (<i>Finance*</i>) <i>Chair of the Audit Committee</i>	Non Executive	M	✓				✓	
Andrew Lockley (<i>Legal*</i>)	Non Executive	M	✓				✓	
Eric Gregory (<i>Commercial*</i>)	Non Executive	M	✓				✓	
<i>National Audit Office Representative</i>	N/A	N/A						✓
<i>Internal Audit Representative</i>	N/A	M						✓
<i>Legal Aid Policy Representative</i>	N/A	N/A		✓				

* Their specialist knowledge and expertise of the financial, commercial and legal sectors respectively help the Board exercise its duties in these priority areas..

Role and Effectiveness of the Legal Aid Agency Board

The LAA Board has supported and advised me in executing my duties as Accounting Officer. They have defined LAA's strategic direction and challenged the effectiveness of the LAA's performance and delivery throughout the year. The LAA Board is responsible for ensuring appropriate arrangements are in place to provide assurance on governance, risk management, and internal control and have achieved this by:

- Supporting the Chief Executive to ensure the LAA is fully accountable to the MoJ and wider Government by delivering on its objectives and priorities;
- providing rigorous challenge, oversight and scrutiny of the LAA's performance, including ensuring organisational risks are identified and mitigated and continuous improvement opportunities are being identified, monitored and progressed;
- supporting the Chief Executive and Executive Management Team in developing and implementing the LAA's strategic and business plans;
- ensuring the decision making processes of the Chief Executive and Executive Management Team are robust, supported by appropriate evidence;
- supporting the Director of Legal Aid Casework in carrying out his responsibilities, ensuring robust practices are in place to maintain the independent decision making process; and
- providing oversight of the LAA's execution of its statutory duties including Health & Safety and Equality & Diversity.

The LAA Board are satisfied the management information it receives has enabled it to operate against the recognised principles of sound

business practice: leadership, effectiveness, accountability, and sustainability. To facilitate oversight and decision making the LAA Board receives a monthly integrated Finance and Performance pack covering service delivery; finance and efficiency; official correspondence and customer service handling, and staff engagement.

During the year the LAA Board focused its work on the:

- LAA's financial and operational performance against key performance indicators;
- progress of the LAA's Change Programmes (Legal Aid Transformation, Integrated Delivery Programme and the Crime Change Programme);
- internal and external stakeholder engagement;
- working closely with the wider Department to share good practice and manage broader dependencies;
- promoting an understanding of the Board's work across the organisation (intranet summaries; board member reflections, an observer at every Board); and
- targeted sessions on risk and assurance.

In May 2015, the Board conducted a self-assessment of its performance during the period April 2014 to March 2015. This review confirmed we are operating as a cohesive and effective board, with access to appropriate management information that informs honest and constructive challenge. There are; however, always areas for development and we will focus on improving our forward planning, including early consideration of delivery risk and the potential impact of departmental and wider Government policy decisions on our business.

The LAA Board met 12 times during 2014-15, including an extraordinary session to review the 2013-14 LAA Annual Report and Accounts. This also included two strategy sessions.

LAA Board member	Number of meetings attended
Executive members	
Matthew Coats <i>LAA Chief Executive and Director General of MoJ Corporate Services</i>	12 out of 12
Catherine Little <i>Director of Finance and Performance</i>	12 out of 12
Owen Mapley <i>Director of Finance and Performance (left 10 April 2014)</i>	1 out of 1
Hugh Barrett <i>Director of Commissioning and Strategy</i>	11 out of 12
Shaun McNally CBE <i>Director of Case Management</i>	12 out of 12
Ruth Wayte <i>Principal Legal Advisor</i>	7 out of 12
Non Executive Board members	
John Grosvenor (<i>Finance*</i>) <i>Chair of Audit Committee</i>	10 out of 12
Andrew Lockley <i>(Legal*)</i>	12 out of 12
Eric Gregory <i>(Commercial*)</i>	11 out of 12
* Their specialist knowledge and expertise of the financial, commercial and legal sectors respectively help the LAA Board exercise its duties in these priority areas.	

Compliance with the Corporate Governance in Central Government Departments: Code of Good Practice 2011

The Board are satisfied the LAA has complied with the principles of the *Code of Practice* for central Government departments, to the extent it applies to an executive agency. There has been one exception; the LAA does not have a dedicated Nomination and Governance Committee with responsibility to oversee talent management, succession planning, incentive schemes, and governance structures. However these responsibilities are covered by the remit of the LAA Board, the Audit Committee, and the Executive Management Team combined.

MoJ provides the LAA with all the research required to inform policy development and programme evaluations. This means the LAA does not own any quality assurance requirement for business critical analytical models.

Audit and Risk Assurance Committee (ARC)

The ARC supports the Accounting Officer and the LAA Board in their responsibilities on matters related to internal and external audit, corporate governance, anti-fraud policies, internal control and risk management, and the LAA's Annual Accounts. The committee also reviews internal audit reports, the National Audit Office (NAO) reports and other reviews of our work such as gateway reviews.

The ARC membership comprises LAA's three NEBMs, who provide insight and challenge on their areas of expertise that include finance, legal and commercial. The Chair also attended the MoJ Corporate ARC in 2014-15. During the year ARC meetings were also attended by the Chief Executive and Accounting Officer, Director of

Finance and Performance, Financial Controller, Deputy Director Assurance, the Head of Internal Audit (MoJ) and NAO representatives.

During the year the ARC focused on:

- Quarterly review of the LAA's financial statements;
- monitoring LAA's assurance reports on risk management, core testing, business continuity, and information security;
- the development and implementation of the LAA's new Whistle Blowing Policy;
- agreeing the annual internal and external audit plans;
- monitoring the outcome of internal audit reports and implementation of agreed actions; and
- consideration of NAO reports, particularly those concerning the value for money of civil legal aid reforms.

The ARC met five times during 2014-15.

Audit Committee member	Number of meetings attended
Non Executive members	
John Grosvenor	5 out of 5
Andrew Lockley	4 out of 5
Eric Gregory	5 out of 5

The ARC completed their annual effectiveness self-assessment in May 2015, where they explored the focus and quality of management information, links with MoJ and the role and input of other attendees. Feedback was collated and analysed from ARC members, audit, and other attendees. This confirmed the committee

had delivered on the agreed actions from the previous annual review, including monitoring the performance of the newly appointed MoJ Internal Audit team; gaining assurances over the LAA's Change Programmes and monitoring the Disaster Recovery (DR) strategy and business continuity plans. The Audit Committee concluded they had healthy and open discussions, access to high quality management assurances, and the appropriate blend of experience to fulfill their roles effectively.

The ARC Chair prepared an Annual Assurance report for 2014-15. This summarised the main issues which the ARC had focused upon, highlighted the significant improvements to the assurance regime made in the year and identified some key areas the ARC will consider in the next financial year which are:

- Controls over information governance, business continuity, infrastructure vulnerabilities and whistleblowing;
- continued focus on the assurances provided over the LAA's Change Programmes, to ensure these realise the intended benefits; and
- the overall risk and assurance hierarchy, including assurances and escalation between the LAA ARC and the MoJ ARC.

Executive Management Team

The Executive Management Team reports to the Chief Executive, and looks after the day to day management of the LAA. The Executive Management Team meets weekly.

Its key responsibilities are to:

- Develop and deliver the LAA's strategic objectives, its values and its culture, ensuring

- effective delivery plans are in place to do so;
- manage the financial and operational performance of the LAA including assessing monthly performance and financial reports, reviewing performance against the LAA's strategic objectives; and
- promote openness and accountability in the LAA's work.

In addition, the Executive Management Team meet quarterly as the LAA Change Board to provide oversight across the organisation's change programmes, which include Legal Aid Transformation, Integrated Delivery Programme and the Crime Change Programme. They are supported in this role by the recently established CCPO who enable the efficient and effective management of its portfolio by:

- Ensuring teams have access to the right resources and expertise;
- facilitating a collaborative approach to work across project teams; and
- providing assurance that risks, interdependencies, financial and delivery targets are being managed and met.

Investment Group

The LAA Investment Group is responsible for the LAA's capital investment strategy, develops the capital programme requirement and negotiates the annual capital allocation. The capital strategy and programme requirement is presented to LAA Executive Management Team for final approval.

The Investment Group reviews business cases and project briefs for individual proposals providing a forum for challenge, ensuring alignment with strategy and affordability. The Investment Group

ensures relevant MOJ, Cabinet Office and HM Treasury approvals are in place in advance of work commencing. The Group monitors capital and digital expenditure, and any associated revenue spend, for initiatives in delivery, capturing lessons learnt and best practice to inform future initiatives.

The Investment Group meets monthly. It is chaired by the Director of Finance and Performance and is attended by representatives from all directorates across the LAA. Project managers and business owners are invited to attend to present and respond to questions on their business cases and project briefs as required.

The LAA National Health and Safety (H&S) Committee

The LAA National H&S Committee have met quarterly throughout the year. The Committee is chaired by the H&S Duty Holder (Director of Case Management) and its membership includes: LAA Corporate H&S team, a Site Lead representative, Trade Union representatives, a senior representative from each business directorate, the Head of MoJ's Fire, H&S team and the Senior H&S Officer from HMCTS. The focus of the National H&S Committee is to review the H&S Corporate risk register and discussing new controls; agreeing training requirements, reviewing and promoting the H&S policy across the LAA. The Director of Case Management and the LAA H&S Advisor also sit on the MoJ Corporate H&S Committee which meets biannually to share good practice and manage wider departmental H&S risk.

Risk Management

The LAA's risk management framework is a fundamental component of its governance and internal control arrangements. The Executive

Management Team are responsible for the identification, assessment and management of risks that may impact delivery of the LAA's strategic objectives. The LAA uses a series of risk registers to manage risk across the organisation:

- **MoJ Strategic Risk Register:** The LAA reports its top level corporate risks to the MoJ for consideration and discussion at Departmental Board meetings.
- **Corporate Risk Register:** This is updated monthly and incorporated in the integrated Finance and Performance pack to the LAA Board and Executive Management Team. This ensures strategic risk is managed by the relevant Executive Management Team member, with direct responsibility over the systems and controls in place to manage risks to the delivery of directorate objectives. In turn, significant corporate risks are reported and incorporated into the MoJ Strategic Risk Register, allowing further scrutiny of risk handling and assistance, where appropriate.
- **Business Unit Risk Registers:** These are updated quarterly and used by Deputy Directors to manage operational delivery risk and escalate potentially significant or recurring risk to the attention of the Executive Management Team and the Board via the Corporate Risk Register.
- **Programme and Project Risk Registers:** These are used by the Senior Responsible Owner and project team to manage the agreed outputs into business as usual operations. The LAA's key programme risks are reviewed by the LAA Change Board.

Examples of the significant delivery risk we monitored and managed last year include:

- **The risk of legal challenge:** Changes to the provision of legal aid as a result of the Legal Aid, Sentencing and Punishment of Offenders Act (LASPO) 2012 and its implementation through our Legal Aid Transformation Programme (LAT) were subject to a judicial review in 2014-15. As a result, a temporary injunction was applied to the LAA's 2015 Duty Provider Crime Contract tender process. Although this challenge was unsuccessful and the suspension lifted in April 2015, the market in which we operate means the LAA may continue to receive challenge to its decision making under LASPO Act 2012. To control and manage the impact of this risk, we have worked closely with MoJ policy colleagues to ensure contingency plans are considered and in place, in the event of a successful challenge against us.
- **The risk that IT system performance impacts adversely on LAA operational activity, given the increasing digitisation of our processes:** The LAA has made significant progress towards achieving its objective of becoming wholly digital by March 2016. In 2014-15 we completed our national roll out of the CCMS and implemented eForms for crime providers. The LAA is reliant on a stable IT infrastructure to support such digitisation and ensure it continues to process legal aid applications and payments. The risk of a significant IT outage could impact adversely LAA operational performance, and on both providers and recipients of legal aid. This risk has been managed in 2014-15 by working closely with our IT service providers to ensure a strong IT infrastructure and service

performance; managing incidents rigorously to reduce resolution time; and implementing a suite of enhancements to strengthen system stability. For contingency purposes, the LAA has developed controlled manual processes which, in the event of IT performance issues, allow the LAA to continue to process legal aid applications and payments.

The Board and I are satisfied we have put in place appropriate controls to manage risk to an acceptable level and contain the impact of any risk, should it materialise. I am confident our risk management approach has been comprehensive, allowing me and the Board to identify early, and respond to, any possible threats to the achievement of LAA objectives.

Fraud Prevention

The LAA continued to apply its risk based approach to preventing, identifying and investigating suspected fraud. We work closely with MoJ Counter Fraud and Development Group, the National Fraud Initiative and Cabinet Office on a range of fraud detection and prevention measures.

Our counter fraud strategy and risk management remains in place and we continue to raise awareness amongst our people and stakeholders. We continue to foster close working relationships with the Department of Work and Pensions, Solicitors Regulation Authority, HMRC, the Insolvency Service, local authorities, and HMCTS to gather intelligence and better inform our prevention and prosecution actions. We collaborate with law enforcement agencies and the Crown Prosecution Service (CPS) to ensure national file standards and practice are followed.

The LAA's counter fraud activity during 2014-15 resulted in the recovery or preservation of £1.64 million of public funds compared to £1.2 million in 2013-14.

Information assurance and data security

The LAA has clearly defined roles and responsibilities that allow for information assurance to be delivered as part of the core business across the LAA. The LAA's Director of Finance and Digital is appointed as the LAA's Senior Information Risk Owner (SIRO), and sits on the MoJ SIRO Board where risks can be escalated. The LAA SIRO is supported in her role by information assurance specialists and a network of Information Asset Owners, who are responsible for identifying and managing information assets within their business area.

In 2014-15, there were 346 personal data related incidents reported in line with our agreed reporting procedures (see Table G on the following page).

Whilst this demonstrates an increase from previous years, it reflects the effectiveness of the considerable work undertaken across the LAA to raise awareness of information security and the importance of reporting incidents.

Work is continuing within the LAA to strengthen its control environment and heighten awareness of the importance of information security. Every incident reported is taken seriously and investigated proportionately, to ensure areas of weakness can be identified and addressed.

Consideration was given to whether any incident was so serious it should be reported to the Information Commissioner's Office (ICO); however, there were no incidents of such severity during the year.

Table G: Summary of personal data related incidents in 2014-15

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	74
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	50
III	Insecure disposal of inadequately protected electronic equipment, devices or paper	0
IV	Unauthorised disclosure	222
V	Other	0

Effectiveness of Internal Controls

Stewardship is embedded across LAA activities and processes and monitored by the governance and risk management arrangements described above. The LAA Board and ARC have reviewed and contributed to my Governance Statement. My Deputy Directors complete quarterly assurance returns that confirm compliance with LAA's policies and procedures and highlight any significant operational issues for the LAA. Our Assurance Framework provides me with the evidence base and assurance there are key operational controls in place and these have been effective in managing the delivery of our objectives throughout the year.

We have continued our focus on reducing error in a stable and sustainable way by working closely with our providers to address the identified drivers of error and provide advice, where required. In 2014-15 we refreshed our methodology for testing the accuracy and eligibility of legal aid payments

and applications. The new methodology provides statistically valid results to 95% confidence levels and was implemented during the course of 2014-15 following discussions with the NAO.

Independent assurance is provided by the NAO's programme of work on the financial accounts and value for money reviews on behalf of Parliament. These assurance mechanisms, together with the LAA's risk management and governance arrangements, ensured the control environment was operating as intended to allow the delivery of our aims and objectives.

A further important source of independent assurance was provided by MoJ Internal Audit, under a service level agreement. The Head of Internal Audit's opinion along with the oversight of my ARC provided a comprehensive level of assurance over key risks and components of the control environment, the result of which are considered in the Head of Internal Audit opinion following.

Head of Internal Audit opinion

The Head of Internal Audit provided an annual opinion of Moderate Assurance on the adequacy and effectiveness of the system of governance, risk management and control, on the basis of the work completed and his knowledge of the LAA. In reaching this conclusion the Head of Internal Audit has recognised the LAA has many strong elements in place and generally has a good level of adherence to its agreed policies and intended controls. In his opinion last year he referred to the need to improve the level of computerised controls. Whilst progress with the implementation of the Integrated Delivery Programme has not been as rapid as originally anticipated the Head of Internal Audit has recognised significant progress made during the year.

Significant control weaknesses

As part of this Governance Statement, I have considered areas of significant control weakness in the LAA where improvements are required. Sustaining strong performance and control over the legal aid fund remains key to the LAA achieving its objectives.

We maintain our robust regime to test, quantify and forecast the accuracy and eligibility of legal aid payments. At the end of 2014-15, our gross error was £19.3 million. This compares to £23.4 million in 2013-14; and £31.5m in 2012-13. These results reflect the sustained work which has been undertaken across the LAA to prevent erroneous payments. These measures have included working closely with providers to ensure they understand and avoid the most common drivers of error, ensuring our caseworkers are trained in identifying inaccurate claims, and improving preventative automated controls in our systems.

Similarly, we have sustained our focus on recovering overpayments of legal aid, which has helped to reduce our net error in 2014-15 to £12.3 million (0.65% of expenditure). This compares to £13.7 million (0.7% of total expenditure) in 2013-14 and £14.5 million in 2012-13 (0.7% of total expenditure).

Conclusion

I am confident this statement provides a comprehensive account of the governance, risk management and control arrangements we have embedded within the LAA. The success of these arrangements is due to the people and processes in place, which have ensured the LAA has met its business objectives.

Signed for and on behalf of the Legal Aid Agency



Matthew Coats

Chief Executive and Accounting Officer of the
Legal Aid Agency
5 June 2015

The certificate and report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Legal Aid Agency for the year ended 31 March 2015 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and Auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Legal Aid Agency's circumstances and

have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Legal Aid Agency; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- The financial statements give a true and fair view of the state of the Legal Aid Agency's affairs as at 31 March 2015 and of the net expenditure for the year then ended; and
- the financial statements have been properly

prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- The part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Strategic Report, the Sustainability Report and the Governance Statement for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

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

9 June 2015

Financial Statements of the Legal Aid Agency for the year ended 31 March 2015

Legal Aid Agency
Statement of Comprehensive Net Expenditure
For the year ended 31 March 2015

		2014-15	2013-14
	Note	£000	£000
Administration costs			
Staff costs	3	51,831	52,526
Other administration costs	4	58,485	54,433
		110,316	106,959
Administration income	6	(787)	(747)
Net administration costs		109,529	106,212
Programme costs			
Staff costs	3	5,153	2,039
Other programme costs	5	1,778,956	2,041,737
		1,784,109	2,043,776
Programme income	6	(198,147)	(210,471)
Net programme costs		1,585,962	1,833,305
Net operating costs		1,695,491	1,939,517
Other comprehensive expenditure			
Items that will not be reclassified to net operating costs:			
Net (gain)/loss on revaluation of intangibles		(534)	290
Net (gain)/loss on revaluation of property, plant and equipment		(115)	65
Total comprehensive expenditure		1,694,842	1,939,872

All income and expenditure are derived from continuing operations.
The notes on pages 58 to 90 form part of these Financial Statements.

Legal Aid Agency
Statement of Financial Position
At 31 March 2015

		31 March 2015	31 March 2014
	Note	£000	£000
Non current assets			
Intangible assets	8	49,221	47,488
Property, plant and equipment	9	8,413	10,865
Total non current assets		57,634	58,353
Current assets			
Trade and other receivables	11	111,482	105,549
Cash and cash equivalents	12	5,752	4,623
Total current assets		117,234	110,172
Total assets		174,868	168,525
Current liabilities			
Trade and other payables	13	(271,678)	(294,141)
Provisions for liabilities and charges	15	(551,816)	(602,545)
Total current liabilities		(823,494)	(896,686)
Total assets less current liabilities		(648,626)	(728,161)
Non-current liabilities			
Trade and other payables	13	(650)	(742)
Provisions for liabilities and charges	15	(2,092)	(2,277)
Total non current liabilities		(2,742)	(3,019)
Assets less liabilities		(651,368)	(731,180)
Taxpayers' equity			
Revaluation Reserve		1,292	1,346
General Reserve		(652,660)	(732,526)
		(651,368)	(731,180)

The notes on pages 58 to 90 form part of these Financial Statements.

Signed for and on behalf of the Legal Aid Agency



Matthew Coats

Chief Executive and Accounting Officer of the Legal Aid Agency
5 June 2015

Legal Aid Agency
Statement of Cash Flows
For the year ended 31 March 2015

		2014-15	2013-14
	Note	£000	£000
Cash flows from operating activities			
Net deficit after interest		(1,695,491)	(1,939,517)
Adjustments for notional and non cash transactions	4	24,979	18,511
Intra-departmental balances settled via General Reserve		18,058	5,543
Central Funds transfer settled via General Reserve		-	(17,100)
Loss/(gain) on impairment and revaluation of assets		16	148
Net finance costs/(income)	15	4	32
(Increase)/decrease in trade and other receivables	11	(5,933)	(2,405)
(Decrease)/increase in trade and other payables	13	(22,555)	(15,750)
Less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		950	4,127
Decrease in provisions	15	(50,918)	(23,091)
Net cash outflow from operating activities		(1,730,890)	(1,969,502)
Cash flows from investing activities			
Purchase of intangible assets	7	(12,310)	(12,675)
Purchase of property, plant and equipment	7	(132)	(1,016)
Net cash outflow from investing activities		(12,442)	(13,691)
Cash flows from financing activities			
Supply funding from the Ministry of Justice: revenue		1,732,870	1,954,413
Supply funding from the Ministry of Justice: capital		11,591	9,745
Net cash inflow from financing activities		1,744,461	1,964,158
Net increase/(decrease) in cash and cash equivalents in the year		1,129	(19,035)
Cash and cash equivalents at the beginning of the year	12	4,623	23,658
Cash and cash equivalents at the end of the year	12	5,752	4,623

The notes on pages 58 to 90 form part of these Financial Statements.

Legal Aid Agency
Statement of Changes in Taxpayers' Equity
For the year ended 31 March 2015

		Revaluation Reserve	General Reserve	Total
	Note	£000	£000	£000
Balance at 1 April 2013		2,491	(762,593)	(760,102)
Changes in taxpayers' equity for 2013-14				
Supply funding from the Ministry of Justice: revenue		-	1,954,413	1,954,413
Supply funding from the Ministry of Justice: capital		-	9,745	9,745
Transfer of provision balance from Moj for Central Funds		-	(17,100)	(17,100)
Net operating cost for the year		-	(1,939,517)	(1,939,517)
Other comprehensive expenditure				
Net loss on revaluation		(355)	-	(355)
Non cash adjustment				
Intra-departmental adjustment		-	11,992	11,992
Notional recharge from the Ministry of Justice		-	9,484	9,484
Notional external audit fee		-	260	260
Movement in reserves				
Transfer of revaluation reserve balance on retired assets		(37)	37	-
Historical cost depreciation transfer		(753)	753	-
Balance at 31 March 2014		1,346	(732,526)	(731,180)
Balance at 1 April 2014		1,346	(732,526)	(731,180)
Changes in taxpayers' equity for 2014 -15				
Supply funding from the Ministry of Justice: revenue		-	1,732,870	1,732,870
Supply funding from the Ministry of Justice: capital		-	11,591	11,591
Transfer of provision balance from Moj for Central Funds		-	-	-
Net operating cost for the year		-	(1,695,491)	(1,695,491)
Other comprehensive expenditure				
Net gain/(loss) on revaluation		649	-	649
Non cash adjustment				
Intra-departmental adjustment		-	19,423	19,423
Notional recharge from the Ministry of Justice		-	10,530	10,530
Notional external audit fee		-	240	240
Movement in reserves				
Historical cost depreciation transfer		(703)	703	-
Balance at 31 March 2015		1,292	(652,660)	(651,368)

The notes on pages 58 to 90 form part of these Financial Statements.

Legal Aid Agency

Notes to the Financial Statements

For the year ended 31 March 2015

Note 1 - Statement of accounting policies

The financial statements have been prepared in accordance with the *Government Financial Reporting Manual (FReM) 2014 to 2015* issued by HM Treasury. The accounting policies contained in the *FReM* apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the *FReM* permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Legal Aid Agency (LAA) for the purpose of giving a true and fair view has been selected. The particular policies adopted by the LAA are described below. They have been applied consistently in dealing with items that are considered material to the financial statements.

a) Basis of preparation

The financial statements are presented in Sterling rounded to the nearest thousand (£000) unless otherwise stated. The financial statements have been prepared under the historical cost convention, modified to account for the revaluation of certain financial assets and liabilities, where material, and of non current assets at their value to the business by reference to their current costs. This complies with HM Treasury guidance.

The preparation of financial statements in conformity with IFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable, the results of which form the basis of making the judgements about carrying values of assets and

liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed. These areas include: trade and other receivables (note 11) and provisions for liabilities and charges (note 15).

Administration and programme - income and expenditure

The disclosure of administration income and expenditure is provided in accordance with *FReM* requirements. The classification of income and expenditure as administration and programme follows the definition set out in HM Treasury's Spending Review. This aligns with *HM Treasury's Consolidated Budgeting Guidance*. The administration expenditure shown in these financial statements reflects the administration costs of running the LAA and the programme expenditure relates to the provision of front line services.

Going concern

The LAA is an executive agency of the Ministry of Justice (MoJ) established under the Legal Aid, Sentencing and Punishment of Offenders (LASPO) Act 2012 to commission, procure and pay for legal aid services from providers (solicitors, barristers, mediators and the not for profit sector). The future financing of the LAA's activities is expected to be met by the MoJ from funds which are voted annually under the relevant Appropriation Act. The LAA takes the view that the going concern concept applies as long as the provisions of the LASPO Act 2012 remain extant.

Prior year comparatives

To ensure information is classified on the same basis as reported for the current year we have made changes to prior year classifications in note 2 and note 5 to the financial statements.

b) New standards, amendments and interpretations***New and amended standards adopted***

There are no new or amended standards that are effective for the financial year beginning on or after 1 April 2014 that have a material impact on the LAA's Accounts.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2014 and not early adopted

New standards which are not yet effective are not expected to have a material impact on the LAA's future Accounts.

c) Income

The LAA's income includes contributions from funded clients, costs recoverable from funded clients or others, including statutory charges, recoveries of damages and administration income. Income is recognised at the point when it is probable that the economic benefits associated with funding a case would flow to the LAA.

Costs recoverable

Where the award to the funded client is settled before a court hearing the income is recognised when owing to the LAA, with physical transfer of the settled amounts made directly between the two parties in accordance with relevant legislation.

Recoveries from damages and statutory charge

Where costs incurred in funding a case are recoverable from funded clients or others, amounts are accounted for as income when they have been assessed as owing to the LAA. The amounts may be recovered from both awarded costs and damages, where applicable.

Crown Court Means Testing

For the Crown Court Means Testing (CCMT) scheme, income is recognised when the verdict is known and the final calculation of the applicant's total contribution has been assessed.

d) Expenditure

Expenditure comprises sums payable, including the estimated value of work completed by legal aid service providers not yet billed, 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. Other costs include the cost of staff (including an allocation of pension costs) and the administrative costs of running the LAA.

e) Cash and cash equivalents

Cash and cash equivalents comprise bank balances held with commercial banks including those administered through the Government Banking Service (GBS), with original maturities of three months or less.

f) Provisions

Provisions represent liabilities of uncertain timing or amount. Provisions are recognised when the LAA has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and for which a reliable estimate can be made for the amount of the obligation. Provisions reflect the best estimate of the expenditure required to settle the obligation. Where the effect is material, the estimated cashflows are discounted. The effect of discounting is charged directly to the Statement of Comprehensive Net Expenditure.

*Notes to the Financial Statements continued***Amounts outstanding on funded cases**

The LAA recognises its liability to pay for work completed at 31 March 2015 but not yet billed. Separate models are run for each legal aid scheme, including Civil Representation, Civil Legal Help, Crime Higher and Crime Lower. These models are dependent on the nature of information available for each scheme. The provision for amounts outstanding on funded cases is then based on such factors as the number of outstanding cases, the elapsed time on each case and the estimated average costs derived from closed case data. The provision is based on assumptions from the models and the sensitivity of these assumptions is included in note 10 to these financial statements.

Provision for amounts outstanding in relation to privately funded cases (Central Funds)

Under the terms of the Prosecution of Offences Act 1985, acquitted defendants who have applied for legal aid and been found ineligible may, in limited circumstances obtain an order from the Crown Court to recover their costs. The LAA estimates the value of unbilled costs to arrive at the amount disclosed in the Accounts as a provision. The amount is an estimate of the expenditure required to settle any obligation at the reporting period end date. In estimating the provision, the LAA has adopted prudent measurement techniques based on the latest data available.

Dilapidations

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 the requirements of the relevant lease. It has then been discounted at the HM Treasury rate of negative 1.5% (2014: negative 1.9%) for short term (up to 5 years), negative 1.05% (2014:

negative 0.65%) for medium term (5 to 10 years) and positive 2.2% (2014: positive 2.2%) for long term leases (over 10 years).

Legal costs

Provisions are made for costs when it is probable that an outflow of resources will be required to settle a current obligation.

Contractual claims

Provisions for contractual claims are made if formal supplier claims are received. A verification process to assess the validity of claim and value is carried out prior to recognising the provision.

g) Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the LAA. All other leases are classified as operating leases. Rental payments on operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight line basis over the term of the lease.

Operating leases

Rental payments are charged to the Statement of Comprehensive Net Expenditure as they fall due. The LAA accounts for lease incentives (rent free periods) over the term of the lease.

h) Financial instruments**Financial assets**

The LAA's financial assets comprise cash and cash equivalents, and trade and other receivables. LAA's receivables are non derivative financial assets with fixed or determinable payments that are not quoted on any market. The LAA has no intention of trading these receivables, which include amounts due from legal aid suppliers and funded clients.

Initial recognition and measurement

Receivables are initially recognised at their gross amount adjusted to take account of the time value of money over the period in which they are expected to be collected, based on the standard HM Treasury discount rate of 2.2% (2014: 2.2%). This is described as a present value adjustment.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate method (EIR), less any impairment and further present value adjustment. Any interest receivable or loss arising on impairment is recognised in the Statement of Comprehensive Net Expenditure. All receivables are disclosed as due within one year although, in the case of statutory charge debts where the repayment of the debt may be deferred until the related asset is disposed of, repayment of debts can occur after more than one year.

Derecognition

Loans and receivables are derecognised when the rights to receive cash flows from the assets have expired.

Financial liabilities***Initial recognition and measurement***

The LAA's financial liabilities comprise trade and other payables. These are not revalued subsequent to initial recognition since they are simple instruments with short term maturities. The LAA is not empowered to borrow money.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Fair value of financial instruments

The fair value of the LAA's financial instruments is determined by using appropriate valuation techniques. Such techniques may include discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details of how they are measured are provided in note 10 to these financial statements.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

i) Impairment of financial assets

An assessment of whether there is objective evidence of impairment is carried out for all financial assets or groups of financial assets at the Statement of Financial Position date. This assessment may be of individual assets ('individual impairment') or of a portfolio of assets ('collective impairment').

An assessment of collective impairment is made of financial assets with similar risk characteristics. For these assets, the LAA's previous experience of losses in each portfolio is used to estimate the degree of impairment on that asset class. Where such an estimate is made, impairment provisions are made to reduce the carrying value of financial assets accordingly. Further detail on the valuation model used to generate this estimate and the actual impairments against the LAA's receivables is included at note 10 to these financial statements.

Notes to the Financial Statements continued

For individual impairment, the principal loss event is one or more missed payments, although other loss events can also be taken into account, including arrangements in place to pay less than the contractual payments, fraud and bankruptcy or other financial difficulty indicators.

Where there is objective evidence that an impairment loss exists on loans and receivables, impairment provisions are made to reduce the carrying value of financial assets to the present value of the estimated future cash flows discounted at HM Treasury's interest rate, currently 2.2% (2014: 2.2%).

j) Accounting for Value Added Tax (VAT)

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

k) Third party assets

Deposit accounts for funded clients

Awards for damages to funded clients are initially payable to the LAA. The LAA 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 assets held on behalf of third parties and are therefore not recognised in the Statement of Financial Position.

Awards for damages paid to the LAA attract interest after a qualifying period.

Crown Court Means Testing (CCMT)

Contributions may be payable to the LAA towards the cost of Crown Court proceedings in those cases that have been subject to means testing. The LAA places these funds on deposit and accounts for them as funds held on behalf of third parties, therefore they are not recognised in the Statement of Financial Position. Once the final judgement and costs have been determined, if the applicant is found guilty, the value of the funds up to the cost limit are due to the LAA. If the applicant is found not guilty, contributions paid to the LAA are refunded including interest calculated at 2% per annum from the date of payment.

The movement in third party funds is reported in note 21 to these financial statements.

l) Employee benefits

IAS 19 'Employee Benefits' requires the LAA to recognise the expected cost of the annual leave entitlement of its employees that is accrued at the end of each financial year. The LAA estimates this accrual by calculating the average value of outstanding leave across each pay band which is then used to provide an extrapolated total.

m) General Reserve

Supply funding

Supply funding received from the MoJ is credited to the General Reserve within the Statement of Changes in Taxpayers' Equity upon receipt of funds. LAA receive supply funding from the MoJ periodically throughout the year and it is accounted for on a cash basis.

Intra-departmental adjustment

Intra-departmental adjustments relate to the settlement between the LAA and the MoJ of i)

intangible assets, ii) transfers of property, plant and equipment and iii) intercompany purchase and sale transactions via the General Reserve.

n) Contingent liabilities and assets

A contingent liability is disclosed when the likelihood of a payment is less than probable, but more than remote. In addition to contingent liabilities disclosed in accordance with *IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'*, the LAA discloses, for Parliamentary reporting and accountability purposes, certain statutory and non-statutory contingent liabilities, where the likelihood of transfer of economic benefit is remote, as required by *'Managing Public Money'*.

A contingent asset is a potential asset that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the LAA. A contingent asset is disclosed where an inflow of economic benefits is probable.

o) Events after the reporting period

In accordance with the requirements of *IAS 10 'Events after the Reporting Period'*, events are considered up to the date on which the financial statements are authorised for issue, which is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

p) Assets under construction

Assets under construction are valued at historical cost within property, plant and equipment and intangible assets, and are not depreciated or amortised. An asset ceases to be classified as an asset under construction when it is ready for use. Its carrying value is then removed from assets under construction and transferred to

the respective asset category. Depreciation or amortisation is then charged on the asset in accordance with the stated accounting policy.

Expenditure is capitalised where it is directly attributable to bringing an asset into working condition, such as external contractor costs and relevant employee costs.

q) Intangible assets

Intangible assets comprise internally developed computer software (including assets under construction) and purchased software licences.

Development costs that are directly attributable to the design and testing of identifiable and unique software products, such as external contractor costs and relevant employee costs, are recognised as intangible assets once recognition criteria are met.

The LAA applies a capitalisation threshold for intangible assets of £10,000 (2014: £10,000).

Intangible assets, excluding assets under construction, are restated to fair value in existing use each year by indexation up to the year end using Producer Price Indices (PPI) for Current Cost Accounting, published by the Office for National Statistics.

r) Property, plant and equipment

Property, plant and equipment assets costing more than the capitalisation threshold of: £10,000 (2014: £10,000) are treated as capital assets. Where an item costs less than the capitalisation threshold 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.

Notes to the Financial Statements continued

Property, plant and equipment is restated at fair value each year by indexation up to the year end using PPI for Current Cost Accounting, published by the Office for National Statistics.

s) Depreciation and amortisation

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

Fixtures and fittings	5 years
Furniture and equipment	3 to 5 years
Information technology	3 to 5 years
Computer software	3 to 5 years

t) Impairment of non financial assets

At each reporting date, the LAA reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the fair value of the asset is estimated in order to determine the extent of the impairment loss.

Impairments that reflect a permanent diminution in the value of an asset, as a result of a clear consumption of economic benefit or service potential, are charged directly to the Statement of Comprehensive Net Expenditure, with any remaining Revaluation Reserve balance released to the General Reserve.

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

Any reversal of an impairment charge is recognised in the Statement of Comprehensive Net Expenditure to the extent that the original charge, adjusted for subsequent depreciation, was previously recognised here. The remaining amount is recognised in the Revaluation Reserve.

u) Revaluation

When an asset's carrying amount increases as a result of a revaluation, the increase is recognised in the Statement of Comprehensive Net Expenditure to the extent that it reverses a revaluation decrease of the same asset previously recognised here. Any remaining increase is credited directly to the Revaluation Reserve in the Statement of Changes in Taxpayers' Equity. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is restated to the revalued amount of the asset.

The revalued element, representing the difference between depreciation based on the revalued carrying amount of the asset charged to the Statement of Comprehensive Net Expenditure and depreciation based on the asset's original cost, is transferred from the Revaluation Reserve to the General Reserve each year. This is the known as historical cost depreciation.

v) Notional recharges***Notional recharges from the Ministry of Justice***

The notional recharge from the MoJ represents the LAA's usage of corporate services.

Notional audit fee

The costs of the audit performed by the National Audit Office on behalf of the Comptroller and Auditor General recognised as a non cash charge in 2014-15.

w) Statutory charge interest receivable

Under the Legal Aid Act 1974, the Legal Aid Act 1988, the Access to Justice Act 1999, and the LASPO Act 2012, where funded clients have recovered or preserved property rather than obtaining damages, recoverable costs may be secured by a charge against the property. Under the Community Legal Service (Financial) Regulations 2000 as amended by the Community Legal Service (Financial) (Amendment) Regulations 2005 and the Civil Legal Aid (Statutory Charge) Regulations 2013, interest on the outstanding balance is currently due at 8% per annum. Interest earned on these balances is recorded as finance income and details are provided in note 6 to these financial statements.

x) Pensions***Principal Civil Service Pension Scheme (PCSPS)***

The PCSPS is an unfunded defined benefit scheme although, in accordance with the *FReM*, LAA Accounts for these as a defined contribution scheme. The LAA recognises contributions payable to defined contribution schemes as an expense in the year in which it is incurred, and the legal or constructive obligation is limited to the amount that it agrees to contribute to the fund.

y) Segmental reporting

We determine suitable operating segments in accordance with *IFRS 8 'Operating Segments'* based on what information is presented for decision making purposes to the LAA Board and Chief Operating Decision Maker.

*Notes to the Financial Statements continued***Note 2 - Segmental analysis**

The LAA divides income and expenditure into three reportable operating segments: Legal Aid Fund, Administration and Central Funds for the purpose of making operational decisions and reporting to the LAA Board. The administration net operating costs reflects the administration costs of running the LAA. The Legal Aid Fund is further subdivided into Civil Legal Help, Civil Representation, Crime Lower, and Crime Higher. Central Funds net operating costs reflects the spend on orders made to acquitted defendants who have privately funded their legal representation.

The operating segment's net cost of operations is measured on the same basis as the corresponding amount reported in the financial statements. There were no inter-segment transactions in the year (2013-14: nil).

The following table presents the net operating costs of operations by reportable operating segments for the year ended 31 March 2015:

	2014-15	2013-14
	£000	£000
Legal Fund		
Civil Legal Help	112,165	129,776
Civil Representation*	510,212	693,527
Crime Lower*	332,578	367,304
Crime Higher	586,457	553,677
Central Funds	44,238	89,070
Administration**	109,841	106,163
Net operating cost	1,695,491	1,939,517

* Net operating costs included within Other Non Segmental costs in the prior year have been reclassified to the appropriate operating segments as a result of improved management information.

** The net operating cost for the operating segment "Administration" is not equal to the "net administration costs" in the Statement of Comprehensive Net Expenditure. The amounts disclosed in the "Administration" operating segment require inclusion of any related programme expenditure. Accordingly, £312k (2014: £49k) of programme expenditure has been included in "net programme costs" in the Statement of Comprehensive Net Expenditure.

Note 3 - Employment costs

Administration

	2014-15	2014-15	2014-15	2013-14	2013-14	2013-14
	Permanently employed staff	Other	Total	Permanently employed staff	Other	Total
	£000	£000	£000	£000	£000	£000
Salaries and wages	36,365	4,806	41,171	34,785	7,455	42,240
Social security costs	2,755	182	2,937	2,697	289	2,986
Other pension costs*	6,386	355	6,741	6,250	522	6,772
	45,506	5,343	50,849	43,732	8,266	51,998
Less recoveries in respect of outward secondments	(214)	-	(214)	(241)	-	(241)
Redundancy**	1,169	-	1,169	742	-	742
	46,461	5,343	51,804	44,233	8,266	52,499
Non Executives' costs:						
Fees to non executives	26	-	26	26	-	26
Social security costs	1	-	1	1	-	1
	27	-	27	27	-	27
Total	46,488	5,343	51,831	44,260	8,266	52,526

* Employer's contributions to the PCSPS are classified as administration or programme in line with the staff's employment costs.

** Redundancy costs disclosed in the above table relate to 34 (2014: 12) full time equivalent staff.

Additional employment costs of £7,431k (2014: £6,018k), relating to staff working on capital projects, were capitalised during the year.

Other pension costs relate to employer contributions to the PCSPS and Partnership Pension Accounts. Costs can be incurred in respect of both permanent and non permanent employees of the LAA.

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

Senior employees' and Non Executive Board Members' remuneration is included in the above table and additional detail is provided in the Remuneration report.

The Principal Civil Service Pension Scheme (PCSPS)

The PCSPS is an unfunded multi-employer defined benefit scheme therefore the LAA is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation

Notes to the Financial Statements continued

For 2014-15, employers' contributions of £7,317k were payable to the PCSPS (2013-14 £6,885k) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employers contributions usually every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions to partnership pension accounts were £216k (2014: £169k) and were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age related which ranged from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

1 person (2014: no persons) retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £0.3k (2014: nil).

Programme

	2014-15	2014-15	2014-15	2013-14	2013-14	2013-14
	Permanently employed staff	Other	Total	Permanently employed staff	Other	Total
	£000	£000	£000	£000	£000	£000
Salaries and wages	3,828	140	3,968	1,570	47	1,617
Social security costs	345	48	393	134	6	140
Other pension costs	706	86	792	271	11	282
	4,879	274	5,153	1,975	64	2,039
Redundancy*	-	-	-	-	-	-
Total	4,879	274	5,153	1,975	64	2,039

* There were no (2014: nil) redundancies during the year.

The programme staff costs relate to the Public Defender Service (PDS) and Community Legal Advice Team.

Notes to the Financial Statements continued

Average number of persons employed - Administration

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

	2014-15	2014-15	2014-15	2013-14	2013-14	2013-14
	Permanently employed staff	Other	Total	Permanently employed staff	Other	Total
Directly employed	1,209	141	1,350	1,161	244	1,405
Staff engaged on capital projects	36	52	88	35	40	75
Other	-	63	63	-	38	38
Total	1,245	256	1,501	1,196	322	1,518

Average number of persons employed - Programme

	2014-15	2014-15	2014-15	2013-14	2013-14	2013-14
	Permanently employed staff	Other	Total	Permanently employed staff	Other	Total
Directly employed	67	4	71	41	1	42
	67	4	71	41	1	42

The average number of Non Executive Board Members in post during the year was three full time equivalent persons (2014: 3). The average number of full time equivalent persons employed at 31 March 2015 includes one Non Executive Board Member (2014: 1).

Compensation schemes - Administration

Exit package cost band	2014-15	2014-15	2014-15	2013-14	2013-14	2013-14
	Number of compulsory redundancies	Number of other departures	Total number of exit packages	Number of compulsory redundancies	Number of other departures	Total number of exit packages
	£000	£000	£000	£000	£000	£000
< £10,000	-	1	1	-	-	-
£10,000 - £25,000	-	8	8	-	-	-
£25,000 - £50,000	-	19	19	-	6	6
£50,000 - £100,000	-	5	5	-	5	5
£100,000 - £150,000	-	-	-	-	1	1
£150,000 - £200,000	-	1	1	-	-	-
£200,000 - £250,000	-	-	-	-	-	-
Total number of exit packages by type	-	34	34	-	12	12
Total resource cost (£000)	-	1,169	1,169	-	742	742

*Notes to the Financial Statements continued***Note 4 - Other administration costs**

	2014-15	2013-14
	£000	£000
Accommodation and related costs	3,478	3,725
Office, IT and service running costs	13,955	14,694
Staff and committee member related costs	2,137	1,767
Operating leases	2,825	3,235
Legal and professional costs	3,773	4,265
Service level agreements with HMCTS	5,993	7,500
Other administration costs	1,345	736
	33,506	35,922
Non-cash costs		
Amortisation	11,324	6,329
Depreciation	2,982	2,621
Notional recharge from the Ministry of Justice*	10,530	9,484
Notional audit fee	240	260
Operating lease amortisation	(97)	(183)
	24,979	18,511
Other administration costs	58,485	54,433

* The majority of the notional recharges from the Ministry of Justice relate to property and Information and Communication Technology costs.

Notes to the Financial Statements continued

Note 5 - Other programme costs

	2014-15	2013-14
	£000	£000
Civil Representation		
Solicitors' charges, counsel fees and disbursements	732,769	838,653
Refund of contributions	1,355	2,093
Costs of successful unassisted parties	343	1,361
Provision for work in progress movement (note 15)	(66,266)	14,694
Debt Impairment and write offs	13,840	22,404
Tax	-	149
	682,041	879,354
Civil Legal Help		
Solicitors' charges, counsel fees and disbursements	100,224	138,803
Grants and Direct Services	7,924	7,012
Provision for work in progress movement (note 15)	3,660	(16,331)
	111,808	129,484
Crime Lower		
Solicitors' charges, counsel fees and disbursements	326,521	390,140
Public Defender Service and Grants and Direct Services	2,548	4,531
Provision for work in progress movement (note 15)	(1,287)	(29,109)
	327,782	365,562
Crime Higher		
Solicitors' charges, counsel fees and disbursements	572,755	582,355
Provision for work in progress movement (note 15)	31,566	(16,411)
Debt Impairment and write offs	8,454	12,375
	612,775	578,319
Central Funds*		
Defence cost orders awarded in Crown and magistrates' courts	49,816	52,278
Interpreters and other	12,998	13,297
Provision for amounts outstanding in relation to privately funded cases (note 15)	(18,576)	23,495
	44,238	89,070
Other non cash costs		
Impairment of intangible assets	16	43
Impairment of property, plant and equipment	-	104
Movement in provisions	292	(231)
Discount on provisions (note 15)	4	32
	312	(52)
Other programme costs	1,778,956	2,041,737

* Central Funds costs in the prior year have been reclassified as a result of improved management information.

*Notes to the Financial Statements continued***Note 6 - Income**

Administration income

	2014-15	2013-14
	£000	£000
Administration income*	787	747
Total	787	747

* The administration income is from other Government departments which have co-located within surplus LAA office space.

Programme income

	2014-15	2013-14
	£000	£000
Civil Representation		
Contributions by funded clients	16,556	20,751
Costs recoverable	125,351	128,039
Recoveries from damages and statutory charge	23,177	28,593
	165,084	177,383
Civil Legal Help		
Costs recoverable	-	2
	-	2
Criminal cases		
Crown Court recoveries	25,915	24,072
Recovery of defence costs	403	570
	26,318	24,642
Finance income		
Statutory charge interest receivable	6,745	8,444
	6,745	8,444
Total	198,147	210,471

Note 7 - Reconciliation of Note 8 intangibles and Note 9 property, plant and equipment to Statement of Cash Flows

	2014-15	2013-14
	£000	£000
Additions of intangible assets (note 8)	11,528	9,222
Decrease in capital accrual	782	3,453
Total intangible asset purchases per Statement of Cash Flows	12,310	12,675
Additions of property, plant and equipment (note 9)	63	523
Decrease in capital accrual	69	493
Total property, plant and equipment purchases per Statement of Cash Flows	132	1,016
Total purchases per Statement of Cash Flows	12,442	13,691

Note 8 - Intangible assets

	Assets under construction	Computer software	Total
	£000	£000	£000
Cost at 1 April 2014	33,406	37,919	71,325
Reclassifications	(38,324)	38,324	-
Additions	11,210	318	11,528
Disposals	-	(37)	(37)
Impairments	-	(16)	(16)
Transfers from the MoJ	1,011	-	1,011
Revaluations	-	782	782
Cost at 31 March 15	7,303	77,290	84,593
Amortisation at 1 April 2014	-	23,837	23,837
Charged in year	-	11,324	11,324
Disposals	-	(37)	(37)
Revaluations	-	248	248
Amortisation at 31 March 2015	-	35,372	35,372
Net book value at 31 March 2015	7,303	41,918	49,221

Notes to the Financial Statements continued

Costs of £31,187k relating to the development of the Client and Cost Management System (CCMS) for the Integrated Delivery Programme (IDP) have been transferred from assets under construction to computer software. CCMS became a live assets in August 2014, and was assigned a useful economic life of 5 years.

The total additions include £801k (2014: £1,583k) of capital accruals at 31 March 2015.

The revaluation reserve balance of £1,292k in Statement of Taxpayers' Equity includes £1,114k (2014: £1,193k) relating to intangible assets at 31 March 2015.

	Assets under construction	Computer software	Total
	£000	£000	£000
Cost at 1 April 2013	25,993	37,050	63,043
Reclassifications	(1,640)	1,626	(14)
Additions	9,053	169	9,222
Disposals	-	(177)	(177)
Impairments	-	(43)	(43)
Transfers from the MoJ	-	-	-
Revaluations	-	(706)	(706)
Cost at 31 March 2014	33,406	37,919	71,325
Amortisation at 1 April 2013	-	18,101	18,101
Charged in year	-	6,329	6,329
Disposals	-	(177)	(177)
Revaluations	-	(416)	(416)
Amortisation at 31 March 2014	-	23,837	23,837
Net book value at 31 March 2014	33,406	14,082	47,488

Note 9 - Property, plant and equipment

	Assets under construction	Fixtures & fittings	Furniture & equipment	Information technology	Total
	£000	£000	£000	£000	£000
Cost at 1 April 2014	3,428	3,571	299	13,140	20,438
Reclassifications	(3,427)	-	-	3,427	-
Additions	63	-	-	-	63
Disposals	-	(2)	(299)	(51)	(352)
Impairment	-	-	-	-	-
Transfers from the MoJ	221	-	-	131	352
Revaluations	-	-	-	174	174
Cost at 31 March 2015	285	3,569	-	16,821	20,675
Depreciation at 1 April 2014	-	3,396	299	5,878	9,573
Charged in year	-	149	-	2,833	2,982
Disposals	-	(2)	(299)	(51)	(352)
Revaluations	-	-	-	59	59
Depreciation at 31 March 2015	-	3,543	-	8,719	12,262
Net book value at 31 March 2015	285	26	-	8,102	8,413

The total additions include £0k (2014: £69k) capital accruals at 31 March 2015.

The revaluation reserve balance of £1,292k in Statement of Taxpayers' Equity includes £178k (2014: £153k) relating to property, plant and equipment at 31 March 2015.

Costs of £3,427k relating to the development of the CCMS for the IDP have been transferred from assets under construction to Information Technology. CCMS was made a live asset in August 2014, and given a useful economic life of 5 years.

Notes to the Financial Statements continued

	Assets under construction	Fixtures & fittings	Furniture & equipment	Information technology	Total
	£000	£000	£000	£000	£000
Cost at 1 April 2013	2,958	4,913	1,679	8,567	18,117
Reclassifications	(53)	410	(410)	67	14
Additions	523	-	-	-	523
Disposals	-	(1,796)	(969)	(55)	(2,820)
Impairment	-	(6)	-	(108)	(114)
Transfers to the MoJ	-	-	-	(2,118)	(2,118)
Transfers from the MoJ	-	-	-	6,933	6,933
Revaluations	-	50	(1)	(146)	(97)
Cost at 31 March 2014	3,428	3,571	299	13,140	20,438
Depreciation at 1 April 2013	-	4,519	1,566	5,364	11,449
Charged in year	-	292	41	2,288	2,621
Disposals	-	(1,796)	(969)	(55)	(2,820)
Impairment	-	(10)	-	-	(10)
Transfers to the MoJ	-	-	-	(1,635)	(1,635)
Reclassifications	-	345	(345)	-	-
Revaluations	-	46	6	(84)	(32)
Depreciation at 31 March 2014	-	3,396	299	5,878	9,573
Net book value at 31 March 2014	3,428	175	-	7,262	10,865

Asset financing

All intangible assets and property, plant and equipment are owned by the LAA.

Note 10 - Financial risk identification and management

The LAA’s financial risk management process seeks to enable the early identification, evaluation and effective management of key risks facing the LAA. Systems have been established to review and reflect changes in the legal aid market and the LAA’s activities.

Interest rate risk

Interest rate risk comprises two primary elements:

1. Interest price risk results from financial instruments bearing fixed interest rates. Changes in floating interest rates may affect the fair value of these fixed rate instruments.
2. Interest cash flow risk results from financial instruments bearing floating rates. Changes in floating interest rates affect cash flows on interest receivable or payable.

The LAA is not exposed to significant interest rate risk.

At 31 March 2015, £61.9m (2014: £68m) of statutory charge debt was due, the principal of which carried a fixed rate of interest. The fair value of these assets, which are not traded, is unaffected by movements in floating interest rates since it is determined by discounting the assets using the HM Treasury rate (currently 2.2%) over the expected collection period.

Money received by the LAA 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).

Money received by the LAA in relation to CCMT contributions is held until the final judgement and

costs of the case have been determined. Refunds of contributions are paid to applicants found not guilty including interest calculated at 2% per annum from the date of contribution receipt by the Fund. The balance of contribution monies is held as cash.

Credit risk

Credit risk is the risk that counterparties to financial instruments do not perform according to the terms of the contract or instrument. The LAA is exposed to credit risk when dealing with funded clients, suppliers and from certain financing activities.

The immediate credit exposure of financial instruments is represented by those instruments that have a net positive fair value by counterparty at 31 March 2015. The Fund considers its maximum exposure to credit risk to be:

	2014-15	2013-14
	£000	£000
Credit risk		
Cash and cash equivalents	5,752	4,623
Trade and other receivables	111,482	105,549
Third party assets	21,096	18,832
	138,330	129,004

Cash and cash equivalents comprise bank balances held with commercial banks, including those administered through the GBS, with original maturities of three months or less.

As at 31 March 2015 there were no financial guarantees or third party obligations, other than amounts held as damages on deposit and Crown Court means contributions, that increased the credit risk of the financial assets set out above.

*Notes to the Financial Statements continued***Trade receivables and other current assets**

The LAA has an inherent risk within trade receivables and other current assets, as the LAA is not predisposed to straightforward cash collections. The LAA recognises this risk and mitigates it in the case of statutory charge debts, where repayment of the debt may be deferred, by securing land charges and using active credit management policies to recover unsecured debts. In some cases the debt collection activities are outsourced to commercial debt collectors. The size of the risk is reflected in the receivables impairment provision which totals £223.3m (2014: £207.4m).

The majority of the LAA's trade and other receivables are the result of a statutory charge, i.e. £61.9m (2014: £68.0m) out of a total receivables balance after impairment of £111.5m (2014: £105.5m). A high proportion of these are secured on property and settlement is deferred until the property is sold. These, along with other receivables, carry an impairment provision based on expected settlement receipts.

The LAA provides for impairment of receivables based on historical cash collection experience and management assessment of likely recoveries, for each category of debt. Consideration is given to macroeconomic factors, such as the downturn in the economy, and inherent risks, such as potential changes to recoveries arising from revisions to legal aid schemes, in assessing the levels of impairment provision.

The LAA's impairment model uses historical recovery profiles by debt category to estimate the provision required against debt balances. The impairment model is underpinned by specific assumptions including: the maximum life of debt is 10 years with the exception of statutory charges where this has been uplifted to 16 years, income is received against debt evenly throughout the year,

and the discount rate is 2.2%. The impact of the following reasonable possible alternatives to these assumptions has been considered:

- Maximum life of debt +/- 1 year;
- income received against a debt at the end of the year, rather than evenly throughout the year;
- discount rate - this rate is set by HM Treasury and is not subject to management judgement and so has not been calculated; and
- predicted income receipts used to calculate the impairment provision cashflows +/- 10% (in line with the maximum and minimum income receipts over the past five years).

Notes to the Financial Statements continued

Assumptions tested

	Assumption	Increase/(decrease) in net financial asset	
		2014-15 £m	2013-14 £m
Maximum life of debt	+1 year	0.4	0.1
Maximum life of debt	-1 year	(0.5)	(0.4)
Income received	Evenly through the year	0.9	0.9
Predicted income receipts	+10%	8.4	8.7
Predicted income receipts	-10%	(8.4)	(8.8)

Using these reasonably possible alternative assumptions, the fair value of the financial assets at 31 March 2015 could be higher by £9.7m (2014: £9.7m) or lower by £8.9m (2014: £9.2m).

Despite possible alternative assumptions being available, the current assumptions will remain unchanged. They will be reviewed periodically and changed if management believe alternative assumptions are a better reflection of the underlying trends.

Provisions for liabilities and charges

The LAA uses complex valuation models to estimate the value of unbilled amounts on live cases. These models utilise inputs for historical price, quantity profiles, forecast spend, and underlying business knowledge, to estimate work completed but not yet billed at the end of the reporting date. The reasonable alternative assumptions below have been arrived at by observing the maximum historical high and low points within the actual source data of the respective models. The impact of the following reasonable alternatives to these inputs has been quantified below:

- Price profiles +9% to -6%
- Quantity profiles +7% to -7%
- Forecast spend +5% to -6%.

Assumptions tested

	Increase in net financial liability		(Decrease) in net financial liability	
	Assumption	£m	Assumption	£m
Price profiles	+ 9%	6.3	(6%)	(4.4)
Quantity profiles	+ 7%	4.6	(7%)	(4.6)
Forecast spend	+ 5%	17.4	(6%)	(20.9)

Notes to the Financial Statements continued

Using these reasonable alternative assumptions, the fair value of the financial liabilities at 31 March 2015 could be higher by up to £28.3m (2014: £30.9m) or lower by up to £29.9m (2014: £29.5m).

The above assumptions exclude the model variables used in the calculation of the Civil Representation work in progress provision of £262.4m (2014: £328.7m).

The Civil Representation work in progress provision is calculated on a case by case basis using past patterns of activity, with multiple potential duration and cost outcomes. The calculations are segmented between the different expenditure streams and between different milestones in a case's lifecycle. The model estimates activity to the next financial event in each expenditure stream, reflecting the business realities of billing timing.

The reasonable alternative assumptions below have been arrived at by observing the maximum historical high and low points within the actual source data of the respective models, adjusted for projected future trends. The impact of the following reasonable alternatives to these inputs has been quantified:

- Transition cost and duration profile using data to March 2013;
- billing duration +21% to -9%; and
- dormancy cut off assumption +25%.

Civil Representation Assumptions tested

	Increase		Decrease	
	Assumption	£m	Assumption	£m
Transition cost and duration profile	March 2013 profiles	19.3	March 2013 profiles	(19.3)
Billing duration	21%	5.4	(9%)	(2.4)
Dormancy assumption	25%	22.2	N/A	N/A

The above inputs are case data driven, with an overlay of management judgement, for example choosing the number of years historical case data to use in creating historical profiles. It should be noted the inherent sensitivity of the Civil Representation work in progress provision is such, that relatively small percentage movements in the above inputs could lead to the estimate crystallising at a materially different amount. Furthermore, a significant proportion of certificated work does not operate on a fixed fee basis and as such, case costs can be subject to fluctuations. All assumptions are reviewed periodically and amended where sufficient evidence exists that such action is appropriate. Using these reasonable alternative assumptions, the fair value of the financial liabilities at 31 March 2015 could be higher by up to £46.9m (2014: £48.4m) or lower by up to £21.7m (2014: £36.8m).

Notes to the Financial Statements continued

Cash

Cash balances are maintained with strong investment grade banks or financial institutions. Banks are selected for their credit status and their ability to meet the LAA's day to day banking requirements. The credit ratings are monitored on a continuing basis. The LAA has not recorded impairments against cash or cash equivalents, nor have any recoverability issues been identified with such balances, including third party assets. Such items are typically recoverable on demand or in line with normal banking arrangements.

Note 11 - Trade and other receivables

	2014-15	2013-14
	£000	£000
Amounts falling due within one year:		
Gross debt	334,746	312,915
Impairment provision	(223,264)	(207,366)
Total	111,482	105,549
By component:		
Contributions due from funded clients	6,296	4,271
Costs to be recovered	1,032	967
Statutory charge *	61,922	67,978
Damages	1,105	139
Amounts due from service providers	25,865	24,769
Recovery of defence costs	12,662	5,023
Prepayments and accrued income	1,020	1,225
Intra-departmental debtors	772	754
Other receivables	808	423
	111,482	105,549

* Under the Legal Aid Act 1974, the Legal Aid Act 1988, the Access to Justice Act 1999, and the LASPO Act 2012, where funded clients have recovered or preserved property rather than obtaining damages, recoverable costs may be secured by a charge against the property. Under the Community Legal Service (Financial) Regulations 2000 as amended by the Community Legal Service (Financial) (Amendment) Regulations 2005 and the Civil Legal Aid (Statutory Charge) Regulations 2013, interest on the outstanding balance is currently due at 8% per annum.

The valuation of trade and other receivables includes an element of estimation which is discussed further in note 10 of these financial statements.

The net amount of statutory charge debt is:

	2014-15	2013-14
	£000	£000
Statutory charge	41,668	46,529
Interest accrued to date	20,254	21,449
	61,922	67,978

Notes to the Financial Statements continued

Amounts falling due within one year by organisational type:

	2014-15	2013-14
	£000	£000
Other central Government bodies	1,671	1,290
Bodies external to Government	109,811	104,259
	111,482	105,549

Note 12 - Cash and cash equivalents

	2014-15	2013-14
	£000	£000
Balance at 1 April	4,623	23,658
Net change in cash and cash equivalent balances	1,129	(19,035)
Balance at 31 March	5,752	4,623

The balances at 31 March were held at:

	2014-15	2013-14
	£000	£000
Government Banking Service	2,805	1,523
Commercial banks	2,947	3,100
Total cash and cash equivalents	5,752	4,623

Note 13 - Trade payables and other liabilities

Amounts falling due within one year:

	2014-15	2013-14
	£000	£000
Amounts due to solicitors, counsel and advice agencies	129,982	148,330
Contribution refunds due to funded clients	1,769	1,951
Accruals and deferred income	114,921	133,537
Corporation and withholding taxes	68	68
Other taxation and social security costs	1,118	983
Intra-departmental creditors	20,685	7,854
Other payables	3,135	1,418
	271,678	294,141

Notes to the Financial Statements continued

For all payables the carrying amount is deemed to reflect fair value.

Amounts falling due within one year by organisational type:

	2014-15	2013-14
	£000	£000
Local authorities	-	18
Other central Government bodies	25,101	10,346
Bodies external to Government	246,577	283,777
	271,678	294,141

Amounts falling due after more than one year:

	2014-15	2013-14
	£000	£000
Accruals and deferred income	650	742
	650	742

Amounts falling due after more than one year by organisational type:

	2014-15	2013-14
	£000	£000
Central Government bodies	552	604
Bodies external to Government	98	138
	650	742

*Notes to the Financial Statements continued***Note 14 - Fair values**

Set out below are the carrying amounts and fair values of the LAA's financial assets and liabilities that are carried in the financial statements.

The LAA considers that the carrying amounts for cash and cash equivalents, trade payables and other liabilities approximate to their fair value due to the short term maturities of these instruments.

Carrying amounts and fair values

	2014-15	2013-14
	£000	£000
Trade and other receivables	111,482	105,549
Cash and cash equivalents	5,752	4,623
Trade payables and other liabilities	(272,328)	(294,883)
Total at 31 March	(155,094)	(184,711)

Trade and other receivables have been discounted over the period from the reporting date to the expected date of collection. This has a material impact on their present value. To take account of this time value of money effect an estimation technique has been used, discounting all receivable balances over periods commensurate with historical cash flow patterns for each class of receivable at a rate of 2.2% per annum (2014: 2.2% p.a.). The discount rate used is the HM Treasury discount rate. The estimation technique used assumes that the timing of future cash flows will follow historical trends.

Fair value hierarchy

The LAA uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

All of the Fund's financial assets and liabilities measured at fair value fall within level 3. There were no transfers into or out of level 3 fair value instruments.

Note 15 - Provisions for liabilities and charges

	Provision for amounts outstanding on funded cases	Provision for amounts outstanding in relation to privately funded cases (Central Funds) *	Provision for legal costs	Provision for dilapidations	Total
	£000	£000	£000	£000	£000
At 1 April 2014	577,306	24,799	106	2,611	604,822
Transfer of Central Funds provision from the MoJ	-	-	-	-	-
Net movement and revaluation to provision	(32,326)	(18,576)	580	-	(50,322)
Amounts used in the period	-	-	(168)	(140)	(308)
Unused amounts reversed in the period	-	-	(253)	(35)	(288)
Finance charges (note 5)	-	-	-	4	4
At 31 March 2015	544,980	6,223	265	2,440	553,908
At 1 April 2013	624,463	-	433	2,985	627,881
Transfer of Central Funds provision from the MoJ	-	17,100	-	-	17,100
Net movement and revaluation to provision	(47,157)	24,799	65	-	(22,293)
Amounts used in the period	-	(15,796)	(224)	(278)	(16,298)
Unused amounts reversed in the period	-	(1,304)	(168)	(128)	(1,600)
Finance charges (note 5)	-	-	-	32	32
At 31 March 2014	577,306	24,799	106	2,611	604,822

Notes to the Financial Statements continued

Analysis of expected timing of discounted flows

	Provision for amounts outstanding on funded cases	Provision for amounts outstanding in relation to privately funded cases (Central Funds)	Provision for legal costs	Provision for dilapidations	Total
	£000	£000	£000	£000	£000
Not later than one year	544,980	6,223	265	348	551,816
Later than one year and not later than five years	-	-	-	1,763	1,763
Later than five years	-	-	-	329	329
Balance at 31 March 2015	544,980	6,223	265	2,440	553,908
Not later than one year	577,306	24,799	106	334	602,545
Later than one year and not later than five years	-	-	-	2,016	2,016
Later than five years	-	-	-	261	261
Balance at 31 March 2014	577,306	24,799	106	2,611	604,822

The LAA estimates the value of unbilled live cases and unbilled defence cost orders 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 end of the reporting date. In estimating the provision, the LAA has adopted prudent measurement techniques based on the latest data available which are discussed further in note 10 of these financial statements.

Based on average historical case lengths and average delay data from defence cost order award date to bill payment date, substantially all of the costs for the amounts outstanding on unbilled cases and unbilled defence cost orders are expected to be incurred within the next 12 months and accordingly, no discounting has been used.

Provision is made for legal costs associated with ongoing litigation.

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 the requirements of the relevant lease. It has then been discounted at the HM Treasury discount rate of negative 1.5% (2014: negative 1.9%) for short term (up to 5 years), negative 1.05% (2014: negative 0.65%) for medium term (5 to 10 years) and positive 2.2% (2014: positive 2.2%) for long term leases (over 10 years).

The costs of the dilapidations provisions are expected to be incurred between 2015 and 2026 as each lease expires.

Note 16 - Commitments under leases

a) Operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods:

	Land and buildings 2014-15	Land and buildings 2013-14
	£000	£000
Obligations under operating leases comprise:		
Not later than one year	2,692	2,809
Later than one year and not later than five years	5,016	7,296
Later than five years	1,172	1,700
	8,880	11,805

Under the terms of the lease agreements, no contingent rents are payable and there are no rights to purchase. The commitments are calculated based on the full unexpired lives of the leases.

Note 17 - Financial commitments

The LAA has financial commitments totalling £2,095k at 31 March 2015 (2014: £447k), all of which fall within one year.

Note 18 - Contingent assets and liabilities

At 31 March 2015, the LAA was investigating 27 compensation claims for which there is a potential liability of £398k (2014: 26 compensation claims with a potential liability of £150k).

There were also two Employment Tribunals and one legal challenge ongoing at varying stages of resolution.

The LAA has no contingent assets as at 31 March 2015 (2014: Nil).

Note 19 - Accountability notes

Losses

During the year we identified 2,457 (2014: 5,652) accounts involving losses totalling £6.4m (2014: £14.6m).

In accordance with *Managing Public Money* individual losses over £300,000 are separately disclosed. There were no (2014: 2) supplier balances written off over £300,000. There were no (2014: nil) funded client balances individually written off over £300,000.

There were no losses (2014: nil) in respect to fraudulent activities.

There were no losses arising as a result of an impairment of assets.

Notes to the Financial Statements continued

Special payments

Similar to the prior year, the total amount of special payments did not exceed £300k, the level at which disclosure of the value and number of ex-gratia payments is required in accordance with *Managing Public Money*.

Note 20 - Related party transactions

The LAA is an executive agency of the MoJ, which is regarded as a related party. During the year the LAA had various material transactions with the MoJ. The LAA has also had various material transactions with Her Majesty's Courts & Tribunals Service (HMCTS), an agency of the MoJ, relating to work provided by HMCTS on behalf of the LAA.

In addition, the LAA has had a number of transactions with other Government departments and central Government bodies. The most significant of these transactions have been with HM Revenue and Customs and PCSPS.

During 2014-15, no Board Members or other related parties have undertaken any transactions with the LAA.

Note 21 - Third party assets

The total third party assets held by the LAA are summarised below:

	31 March 2014	Gross Inflows	Gross Outflows	31 March 2015
	£000	£000	£000	£000
Monetary assets such as bank balances and monies on deposit	18,832	31,271	(29,007)	21,096

Total third party assets are comprised of the following:

Damages

The LAA holds awards for damages on behalf of funded clients (see note 1k).

	31 March 2014	Gross Inflows	Gross Outflows	31 March 2015
	£000	£000	£000	£000
Monetary assets such as bank balances and monies on deposit	9,677	11,920	(12,519)	9,078

The LAA receives awarded damages awaiting the final settlement of a case and contribution monies from clients towards legal costs. The assets held at the end of the reporting date comprise pooled investment funds and cash and building society deposits as follows:

	31 March 2015	31 March 2014
	£000	£000
Cash	9,078	3,442
Pooled investment funds	-	6,235
	9,078	9,677

*Notes to the Financial Statements continued***Crown Court Means Test**

The LAA holds CCMT contributions (see note 1k).

	31 March 2014	Gross Inflows	Gross Outflows	31 March 2015
	£000	£000	£000	£000
Monetary assets such as bank balances and monies on deposit	9,155	19,351	(16,488)	12,018

The LAA receives contributions towards costs awaiting the final judgement and calculation of the total costs of a case. The outcome of the case will determine whether the third party asset transfers to the Fund or is returned to the third party. The assets held at the end of the reporting date comprise cash as follows:

	31 March 2015	31 March 2014
	£000	£000
Cash	12,018	9,155

Note 22 - Events after the reporting period

In accordance with the requirements of *IAS10 'Events after the Reporting Period'*, events are considered up to the date on which the financial statements are authorised for issue, which is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

There are no subsequent events to report.

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