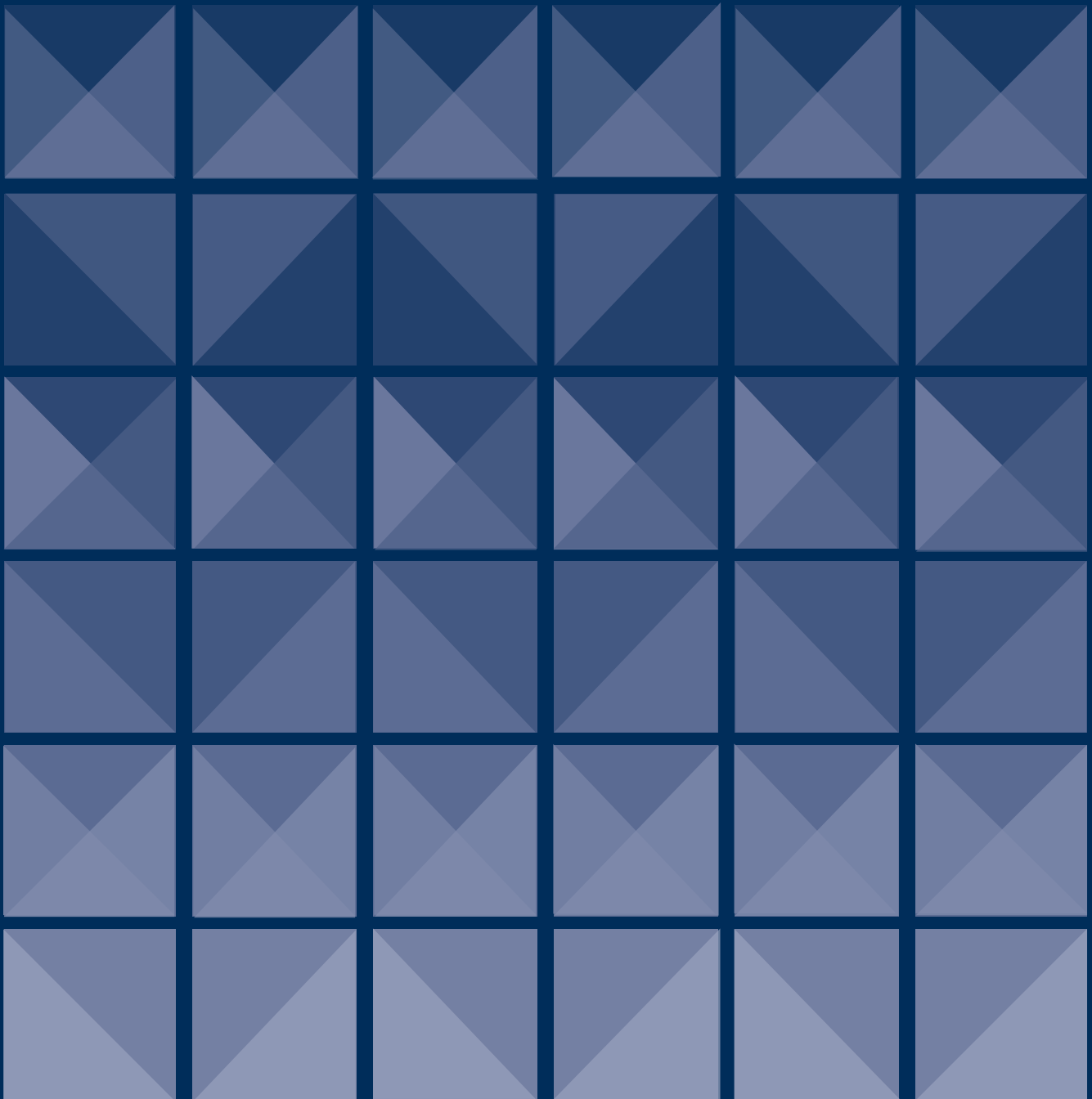




HM Courts &
Tribunals Service

2016-17

HM Courts & Tribunals Service Trust Statement





HM Courts &
Tribunals Service

HM Courts & Tribunals Service Trust Statement 2016-17

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

Presented to the House of Commons pursuant to section 7 of the Government Resources and Accounts Act 2000.

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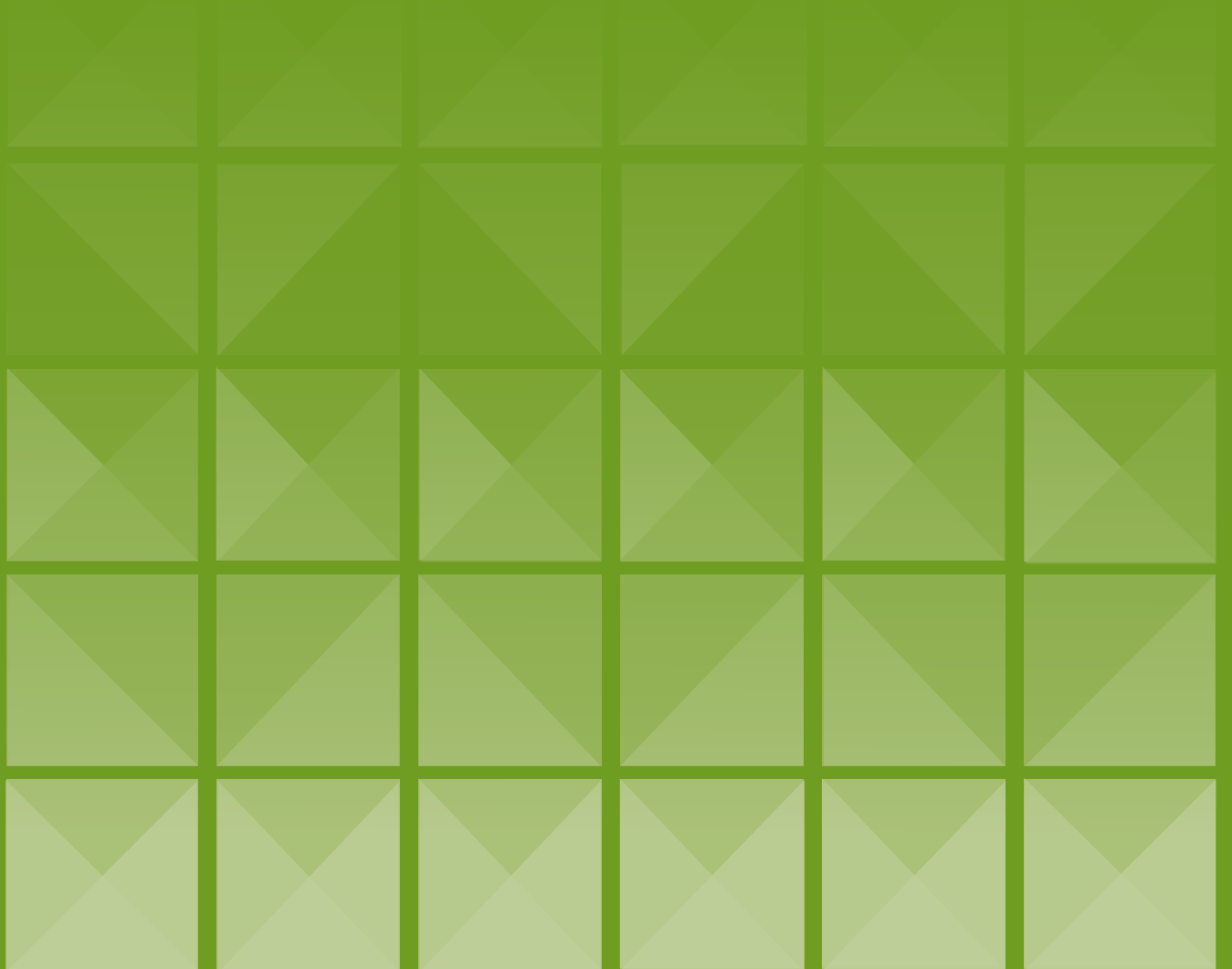
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Section 1: Introductions



Accounting Officer's Foreword to the Trust Statement

I'm pleased to present my first foreword for the HM Courts & Tribunals Service Trust Statement. I'm delighted that the Comptroller and Auditor General has once again been able to provide an unqualified audit opinion on this statement. I would like to thank everyone involved – both within HMCTS and our partner agencies – for their continued efforts to improve our activities in enforcing and collecting the range of financial penalties and fines for which we are collectively responsible.

The programme of reform and modernisation that is now well underway across HMCTS will deliver a service for its users that is fit for the 21st century. An increase in digital services, as well as a more efficient and targeted use of our court and tribunal estate, will meet the needs of the users of a modern justice system.

As part of this programme, we are specifically transforming the way that we deliver and administer compliance and enforcement as an organisation. Through a timely, tailored and tough approach to compliance and enforcement, HMCTS will introduce new ways of working, supported by an improved ICT infrastructure.

We are already seeing this approach, and our wider change programme, deliver improved performance for the organisation. During 2016-17, our strong performance in collections improved further, with an additional £47m collection, a 7% increase on the previous year. This improved collection rate was underpinned by a number of new initiatives including the introduction of a dedicated team focused on the recovery of historic debt, and the increasing use of data sharing initiatives with the Department of Work and Pensions (DWP) and HM Revenue and Customs (HMRC).

A total of £31m was also collected for victim services, an increase of £2.7m on 2015-16. This follows an increase in the surcharge applied at sentencing in Courts in April 2016, which means that more funding is directed to meet the needs of local communities. The majority of the funding is now managed by Police and Crime Commissioners, who tailor services to meet the needs of their communities.

HMCTS will continue to do everything in our power to ensure that offenders pay what they owe as part of our focus on delivering an improved service for our court users to ensure that justice is delivered.

In introducing this year's Trust Statement, I would also like to pay tribute to my predecessors, Kevin Sadler and Natalie Ceeney, under whose leadership the majority of the activity covered by this statement took place. It is thanks to them, and to the hard work of colleagues across the whole of HMCTS, that I am inheriting a reform programme, and a wider agency, on such a sound financial footing.

Susan Acland-Hood
Chief Executive and Accounting Officer

Introduction to the Trust Statement

Introduction

A Trust Statement provides an account of the collection of revenues which by statute or convention are due to the Consolidated Fund¹ where the entity undertaking the collection acts as agent rather than principal. The legislative requirement for the HM Courts & Tribunals Service Trust Statement is set out in section 7 of the Government Resources and Accounts Act 2000.

HM Courts & Tribunals Service acts as an agent responsible for collecting financial penalties imposed by the judiciary and the police. These impositions comprise court fines, prosecutors' costs, and compensation to victims, fixed penalty notices, confiscation orders and victim surcharge.

The Trust Statement records income and expenditure relating to these impositions, the third party bodies to which the funds are disbursed and the year-end balance owed to the Consolidated Fund.

The Trust Statement accounts do not include the costs of running HM Courts & Tribunals Service. These are reported separately in the HM Courts & Tribunals Service Annual Report and Accounts 2016–17 which also sets out the general direction and priorities for the agency, details of its management and the Chief Executive's report.

Scope

HM Courts & Tribunals Service collects the following types of financial imposition as described below.

Fines, prosecutors' costs and compensation orders – These items are imposed by both magistrates' and Crown Courts and are enforced by the National Compliance and Enforcement Service, part of HM Courts & Tribunals Service. Fines collected by HM Courts & Tribunals Service are surrendered to the Consolidated Fund after any retentions permitted by HM Treasury. Prosecutors' costs and compensation order monies are passed to the relevant prosecuting authority and the victims of the crimes committed respectively.

Confiscation Orders – Confiscation orders are imposed by the Crown Court. These require the defendant to pay back the proceeds of acquisitive crime. The orders are made under the Proceeds of Crime Act 2002 and can result in the seizure and sale of assets. 39% of confiscation orders by value are enforced by agencies other than HM Courts & Tribunals Service, including the CPS, SFO, Department for Work and Pensions and local authorities. The typical composition of confiscation orders is a small volume of high value orders and a larger volume of low value orders. Confiscation order receipts are surrendered to the Home Office, with a portion subsequently returned to the Ministry of Justice (MoJ) under the asset recovery incentivisation scheme.

¹ The Consolidated Fund is the central account administered by HM Treasury which receives government revenues and makes issues to fund expenditure by Government Departments.

Fixed penalty notices – Penalty notices are imposed by the police and include both fixed penalty notices (FPNs) for traffic rule violations, penalty notices for disorder (PNDs) and antisocial behaviour orders (ASBOs). Notices that remain unpaid after 28 days are converted into fines and enforced as described above. Receipts from penalty notices and the associated fines are surrendered to the Consolidated Fund after deduction of retentions permitted by HM Treasury.

Victim surcharge – An additional surcharge is added to fines that are imposed and are enforced as described above. The receipts from the collection of the victim surcharge by HM Courts & Tribunals Service are passed to the justice reform directorate of the MoJ to fund victims' services.

Criminal Court Charge – The criminal court charge was an additional financial imposition designed to recover some of the costs of the criminal court from those convicted of an offence. On 3 December 2015 the Secretary of State laid a statutory instrument with the effect that from 24 December 2015 the criminal court charge would no longer be imposed. The charges in the 2016-17 accounts relate to remissions and appeals against levies of the criminal court charge in 2015-16. All charges imposed up to that point are still payable. Receipts from the criminal court charge are due to the MoJ and are recorded in the MoJ departmental accounts.

Expenditure and disbursements – Receipts from confiscation orders, prosecution costs and compensation orders are remitted to appropriate third parties, including government departments and the victims of crime. These remittances are reflected through the disbursements disclosed in the Statement of Revenue and Expenditure.

The only expenditure in the HM Courts & Tribunals Service Trust Statement relates to the administrative write-off of fines and the impairment of debt related to outstanding fines and confiscation orders.

As part of the 2015 Spending Round settlement HM Treasury has permitted the MoJ to retain some collections from fines and fixed penalty impositions, the amount permitted to be retained is managed within an overall income settlement for the MoJ set by HM Treasury according to their Consolidated Budgeting Guidance. The total amount retained is disclosed under disbursements in the Statement of Revenue and Expenditure as Revenue retained by the MoJ. The additional amount permitted to be retained in 2015-16 was capped at £340 million for all retentions.

Section 2: Our performance



Business Overview

Financial performance

Impositions revenue

Total imposition revenue decreased from £1,002 million in 2015-16 to £900 million in 2016-17, a decrease of £102 million. This was driven mainly by the cessation of the Criminal Court Charge in December 2015 (£66m in 2015-16) and a reduction in the number of very high value confiscation orders imposed offset by an increase in high value fine impositions and the introduction of new rates of victim surcharge for offences committed after 8th April 2016.

In 2016-17 there has been an increase in the number of remissions granted for Criminal Court Charges in-line with the legislative provisions, due to the cessation of the charge in December 2015 these remissions appear as a negative imposition in the Statement of Revenue and Expenditure.

Disbursements and expenditure

Total disbursements have decreased by £102m from £944m in 2015-16 to £842m in 2016-17.

£97m of this overall decrease is due to a reduction in the credit losses incurred in the year which is mainly attributable to:

- The partial suspension of write-offs during the year coupled with the increased focus on recovery of old debts resulted in a write back of accounts of £24m, compared to a write off of accounts of £44m in 2015-16;
- a reduction in the impairment charge for the year owing to the revision in the impairment estimate which has caused an increase in the net debt recoverable. This increase in the recoverable net debt causes a corresponding increase in the value of the disbursements due to the relevant third parties.

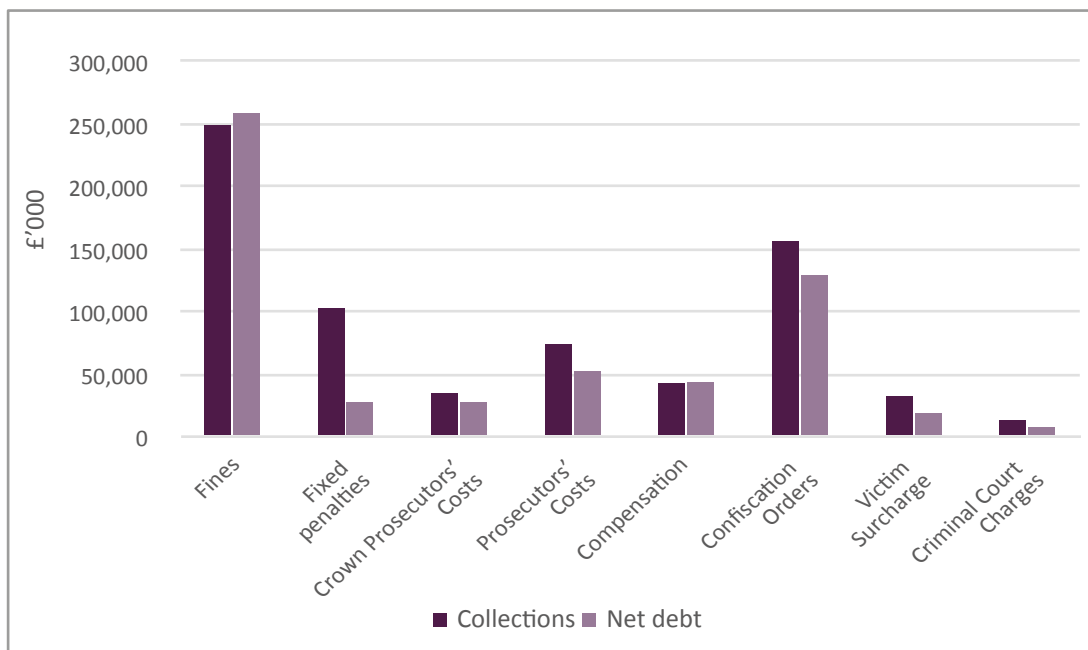
The overall impact is that there is no movement on the net revenue due to the Consolidated Fund which was £58m in both 2016-17 and 2015-16.

Collections

Improved enforcement activity has resulted in a 7% increase in cash collections. This is driven by prompt payment of a number of the high value impositions and a data sharing initiative that began in July 2014 and has since been used more widely across HM Courts & Tribunals Service to share information with HMRC and DWP allowing identification and enforcement against offenders.

Impairment of debt

Each type of outstanding financial imposition has been separately assessed to calculate the appropriate level of impairment required to reflect the value of debt which is likely to be recovered. The total value of debt estimated to be recoverable as at 31 March 2017 is £556 million (2015-16: £548 million). This is compared to the value of cash collected in the year in the chart below.



Confiscation Orders

The gross value of confiscation order debt as at 31 March 2017 is £1,814 million (2015-16 £1,761m) and has been impaired for accounting purposes to a net present value of £128 million. This is the most significant impairment as a proportion of outstanding debt. There are a number of reasons why the impairment of confiscation orders is high. The recoverability of confiscation order debt is affected by the nature of the debt – orders are often imposed on assets which have been hidden by the defendant, or the assets are overseas. Furthermore, it is not possible to write off confiscation order debt – it can only be cancelled in court (a judicial cancellation) in very specific circumstances, such as on the death of a defendant. The power to apply to discharge accounts where the defendant is deceased was introduced in June 2015. HM Courts & Tribunals Service is currently working through the stock of these orders, and where appropriate making the relevant application to cancel the order.

Confiscation order debt can be broken down into some of these categories as follows:

| | 2016-17 £000 | 2015-16 £000 |
|---|------------------|------------------|
| Interest (historically challenging to enforce) | 568,067 | 502,087 |
| Assets assessed as hidden with no other assets against which enforcement action can be taken. | 359,078 | 206,893 |
| Offenders deceased, deported or cannot be located | 169,122 | 135,531 |
| Orders subject to appeal and cannot be enforced | 12,661 | 22,158 |
| Assets overseas | 7,766 | 7,692 |
| Sub-total | 1,116,694 | 874,361 |
| Remaining confiscation order balance | 698,124 | 887,088 |
| Total outstanding debt | 1,814,818 | 1,761,449 |

The 'Remaining confiscation order balance' includes orders where enforcement activity is underway, although it is likely some of the value will be identified as hidden or overseas, making recovery very difficult.

Further analysis of confiscation order debt by value and lead enforcement agency is provided in note 4 to the Trust Statement.

Future developments and initiatives

Enforcement and compliance services

Ministers have previously set out the importance of reforming HM Courts & Tribunals Service to provide a modern and efficient service for society. Improving compliance and enforcement services will continue to form a key part of that work, with HM Courts & Tribunals Service working to deliver a transformed service by 2020.

The programme of change set up to design and deliver this transformation is focused on creating a service which meets user needs and uses data effectively to ensure orders of the Court are enforced. The new service, built around a strategy of being timely, tailored and tough, aims to increase the level of collections through improved data analytics and customer insight and segmentation. Improved systems will also drive a reduction in the cost of the service through improved processes and increased automation.

Throughout the past year detailed plans have been developed to deliver this new service. In addition the programme has placed an increased focus on the recovery of old debt, with a dedicated team working to trace defendants with outstanding fines and enforce the debt. The team have worked with the Cabinet Office Debt Market Integrator to enrich and segment these historic accounts to increase the likelihood of success. This work has been significantly enhanced through the data sharing initiatives with HMRC and DWP, which enables the team to gain up to date information on current addresses and employment and benefit status and then apply the appropriate enforcement sanction. In excess of £2.4m has been recovered in the short time that the team has been operational.

With effect from 1st April 2016 the process of write-offs was partially suspended whilst the business practices relating to debt review and assessment criteria were assessed. All non-recoverable amounts that would have been included in any write off review have been assessed as part of the impairment provision. This linked with the focus on recovery of old debt has resulted in there being a write back of debt in 2016-17.

Effect of Universal Credit on Deduction from Benefit Orders

Deduction from benefit orders have been used as the first enforcement sanction for a number of years but in the past the amounts recovered from each offender have been low – only up to £5 per week. Since the introduction of Universal Credit HM Courts & Tribunals Service have been able to increase the value of the deductions to up to 40% of the allowance depending on any other third party deductions orders. This means that outstanding financial impositions have the potential to be cleared much quicker. The full benefits from this will increase as the Department for Work and Pensions rolls out Universal Credit.

Work to reduce cheque volumes

HM Courts & Tribunals Service currently sends a large volume of cheques each month when making payments to creditors, which includes compensates – these are both expensive to produce and administer. Throughout 2016-17 a pilot has taken place in two of the offices to reduce the number of cheques that are sent. This involved making contact with any creditor who had not already provided bank details, before amounts are paid out, so that they can be directed to a BACS payment rather than cheque. After six months, these pilots were evaluated as successful and changes introduced in all cash offices to continue to reduce the volume of cheques issued to creditors. This has been coupled with some detailed partnership working to encourage major creditors to move to BACS payments rather than cheques.

Confiscation Order Enforcement

HM Courts & Tribunals Service is committed to increasing the amount collected under confiscation orders. Established relationships with partner agencies have been improved in order to secure compliance and maximise the effectiveness of enforcement sanctions.

The Home Office criminal finances board (on which HM Courts & Tribunals Service is represented) continues to set strategic direction for confiscation order activity as part of the wider criminal finances improvement plan. The Board also ensures that a targeted approach to enforcement is taken by prioritising cases for joint agency intervention.

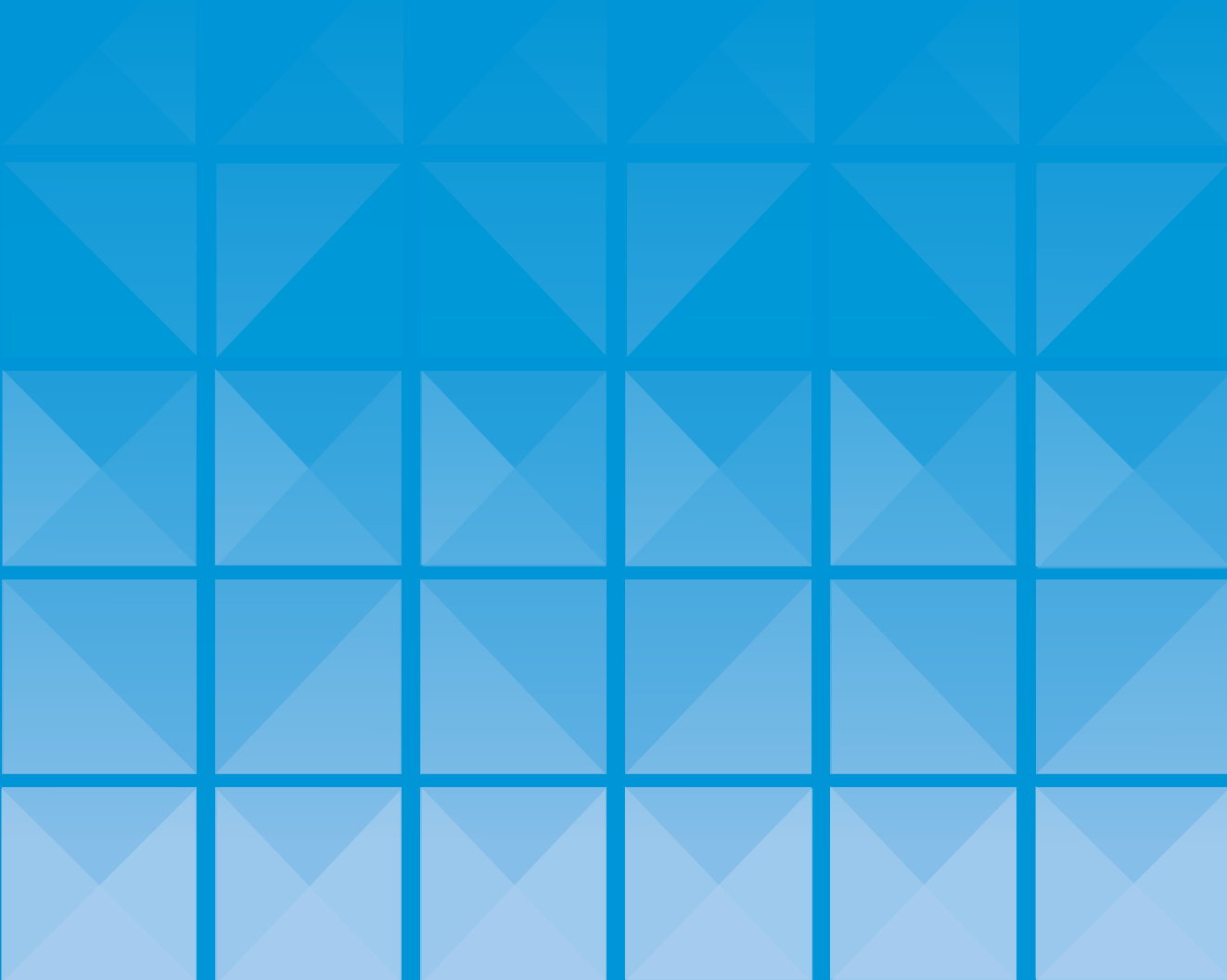
HM Courts & Tribunals Service has co-located four regional confiscation units within Proceeds of Crime hubs (set up by the police and CPS) and continues to explore the potential to co-locate other Units. This has enabled agencies to share intelligence and work closely together in order to take quick and effective enforcement action. This improved joint agency working has also improved our ability to implement effective regional strategies and share best practice nationally.

Susan Acland-Hood

Chief Executive and Accounting Officer

11 July 2017

Section 3: Our controls, governance and accountability report



Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed HMCTS to prepare a Trust Statement for each financial year in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the collection of fines, penalties, costs awarded by the courts, compensation ordered by the courts, confiscation orders and the associated revenue, expenditure and cash flows for the financial year.

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- have taken all steps that ought to have been taken to make herself aware of any relevant audit information and to establish that the entity's auditors are aware of that information, and that they are not aware of any relevant audit information of which the entity's auditors are unaware of
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the statement
- prepare the statement on a going concern basis, and
- confirm that the Trust Statement as a whole is fair, balanced and understandable.

HM Treasury has appointed the Permanent Secretary of MoJ as Principal Accounting Officer of the Department. The Chief Executive of HMCTS holds the role of Accounting Officer for the purposes of the Trust Statement.

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 HMCTS's assets, are set out in Managing Public Money published by the HM Treasury.

Auditors

The Trust Statement is audited by the Comptroller and Auditor General under Section 7(4) of the Government Resources and Accounting Act 2000. The C&AG's fee for the audit of the 2016-17 Trust Statement was £100,000 (2015-16: £100,000). This is charged on a notional basis and recognised in the HM Courts & Tribunals Service Annual Report and Accounts 2016-17.

So far as I am aware, there is no relevant audit information of which the auditors are unaware. I have taken all steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

Susan Acland-Hood

Chief Executive and Accounting Officer

11 July 2017

Governance Statement

Introduction

HMCTS is an Executive agency of the Ministry of Justice (MoJ). Our key aim is to run an efficient and effective courts and tribunals system which enables the rule of law to be upheld and provides access to justice for all. The organisation operates in accordance with our published Framework Document which sets out the basis of an operating partnership between the Lord Chancellor (Secretary of State for Justice), the Lord Chief Justice and the Senior President of Tribunals.

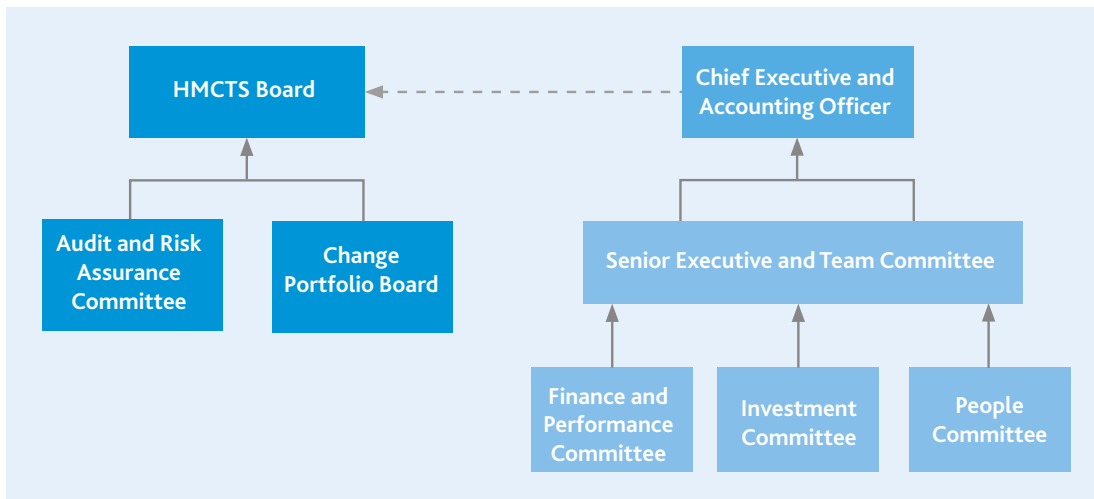
This statement describes the control framework in place over the recording and collection of financial impositions, including the penalties imposed by the police service and the remittance of these collections to the relevant parties and the Consolidated Fund. The HM Courts & Tribunals Service Annual Report and Accounts 2016-17 (HC 112) provides a more detailed explanation of the wider control framework operated by HMCTS.

As Chief Executive I am responsible for the day-to-day operations and administration of the agency and leadership of its staff. I work under the general direction of the HMCTS Board. As Chief Executive and Accounting Officer I am accountable to the MoJ Permanent Secretary and Principal Accounting Officer and ultimately to Parliament.

I was appointed as Accounting Officer on 21 November 2016, following Natalie Ceeney's departure on 31 May 2016. Kevin Sadler acted as interim Chief Executive and Accounting Officer from 1 June 2016 to 20 November 2016. On my appointment I assumed personal responsibility for governance, internal control and risk management for HMCTS. I reviewed the information and assurances provided by Kevin Sadler and am satisfied with them and that I have the necessary systems and processes in place to maintain an effective system of internal control which supports the achievement of policies aims and objectives whilst safeguarding the public funds and assets for which I am personally accountable.

Governance framework and management structure 2016-17

Governance within HMCTS is delivered through a robust Board and executive team as set out in the Delegation of Authority Policy. In 2016-17, this was as follows:



Corporate Governance in Central Government Departments – Code of Good Practice

This code applies to MoJ directly and HMCTS has adopted key principles as best practice. We remain compliant with material requirements with the exception of the Nominations Committee as reported in previous years. We have a People Committee with the responsibility for considering talent and succession planning within the organisation. In addition the HMCTS Board discussed at their March 2017 meeting, performance and talent management for our senior executives. Governance arrangements for the organisation are overseen by the Audit and Risk Assurance Committee and the HMCTS Board as well as by the executive team on a day to day basis.

Principal systems and controls

There are two main systems used to account for transactions relating to fines, fixed penalties and confiscation orders – LIBRA and Pentip. LIBRA is a case management system which is used to record all transactions except those relating to fixed penalties, which are recorded on Pentip. Pentip is owned and managed by the Home Office (HMCTS is a member of the Pentip executive committee) and used by Police forces in England and Wales to record penalty notices and by HMCTS to record receipt of payments.

Both systems operate under a comprehensive control framework. The main features of the control framework are described below.

- Segregation of duties and controlled system access.
- Standard operating procedures for all key processes.
- Monthly and quarterly verification of all system control totals.
- Verification of cash balances by completion of daily, monthly and quarterly reconciliations.

There have been no significant control breaches during the year

Risk management

A Risk Management Policy was in place throughout 2016-17, designed to identify, monitor, manage, escalate and report the risks or threats to the achievement of our objectives. However, we recognised the need to renew our policy to ensure we continuously improve our approach to managing the risks associated with delivering our business as well as a fast paced Change Programme.

As such, during this reporting year we have significantly improved our risk management arrangements through the development of a new Risk Strategy. The Strategy sets out how HMCTS will manage the risks associated with the delivery of our priorities as well as providing new tools to support the management of risk. The Strategy is underpinned by new guidance documents which have been streamlined and tailored toward staff training needs. Targeted communications and presentations have been positively received and have ensured that our organisation will be able to apply the Risk Strategy effectively during 2017-18.

Risk assessment 2016-17

My Senior Management Team (SMT) undertook a risk workshop at the beginning of the year to identify the risks to the delivery of our key objectives. Risks were considered and subsequently agreed by the HMCTS Board and the SMT undertook regular formal reviews throughout the year, updating risks to reflect progress made to reduce the risk and take immediate action where our exposure to risk has increased. Key successes as a result of this proactive approach include:

- A number of risks that scored as 'very high' at the beginning of the year were reduced to 'high', 'medium' or 'low' risks as a result of the action that owners took including risks for **lack of skills and capability, transformation not being deliverable to cost or schedule and commissioning, procurement policy and service delivery risks**. No 'very high' risks remained on the Risk Register at the end of the reporting year.
- The **Board Alignment** risk reached its target risk level as did the **Property** risk which, through the appointment of key people into key roles and the extension of two facilities management contracts was reduced from 'very high' to 'low.' Both of these risks have been removed from the Risk Register having reached a level where the Organisation can tolerate the residual risk level during Business as Usual (BAU) activity.
- The '**complexity of governance arrangements**' and '**failing to secure our income forecast**' risks that were reported in this statement last year have reduced to the extent that we have been able to remove them from our risk register during the year.

The risk assessment for 2017-18 is in progress and the majority of the risks below will continue to feature in our risk register with actions planned to manage and reduce the risk score.

Top risks

We have continued to manage our top risks throughout the year. Capacity and capability themes feature in a number of our highest risks including **lack of skills and capability** and **the lack of resource capacity and losing key people** needed to take the organisation through Change and manage the business now.

In order to manage these risks a specific recruitment programme for Reform has been introduced. This includes tracking recruitment of individuals with the required capability against end state requirements; taking proper and effective advantage of our succession planning and the knowledge of our people to make strategic recruitment for key roles. Additionally this programme will look across government and utilise contractor capability where appropriate. People risks overall are being 'bolstered' as we move forward into 2017-18.

Losing key personnel was a risk identified and managed during 2015-16 and prominent in 2016-17. It related to the ongoing potential for losing staff with valuable key skills, leadership and experience. This risk presented the highest risk to HMCTS during the period April to December 2016 following the departure of the Chief Executive in May 2016. Whilst this will always be a risk to the organisation the situation has improved with the appointment of a new Chief Executive from November 2016, the creation of a new Deputy Chief Executive post filled by the interim Chief Executive. This is giving senior stability to the organisation. As a result of work underway across HMCTS and identified above on improving capability, combined with further succession planning for key posts, an effective SMT which is functioning collaboratively and the HMCTS Board Chairman in place until summer 2018, this risk has reduced in overall impact although it is still considered to be a high risk and will be managed accordingly.

A risk to our Change Programme that has been prominent in our risk register is the ongoing and **uncertain political and economic climate**. This can lead to uncertainty with funding provision, policy changes and delays in decision making. These factors can all contribute to delays, increasing costs and not reaping the anticipated benefits the programme is designed to deliver. To mitigate the risk we have robust engagement arrangements in place, meeting frequently with Ministers to update them on progress and seeking agreement to next steps. This risk will continue through to 2017-18.

Our **Complexity of Governance** risk was a top risk which was closed during the reporting year. As part of this risk an external review of our Reform Programme was undertaken and a number of significant and high level recommendations were identified. We subsequently identified a risk which highlighted the potential for the review recommendations not being implemented effectively or fully and at one point this was one of our highest scoring risks. With the implementation of a number of the recommendations, specifically the transfer of the property function and other key functional leadership areas to HMCTS, the risk has receded to an extent that it is now a medium risk to HMCTS. This risk will continue to be monitored closely in the wider context of all of our transformational risks.

HMCTS has successfully managed the risks associated with establishing a fit for purpose **Property function**. This is of particular importance currently given the need to effectively and appropriately dispose of courts as part of our Change Programme, in addition to providing business as usual support to HMCTS. As noted above, key recruitments and contract extensions led to this risk achieving its 'low' target score and being removed from the Register at the end of the year.

We have also made progress in the management of our **commercial** risks throughout this year. This has been achieved primarily by considering how we engage with and manage our suppliers, and ensuring HMCTS is provided with effective and appropriate services in line with their contractual obligations. A substantial amount of activity has taken place which has resulted in a reduction from a 'very high' to a 'high' risk. This has included awareness, training and increasing the capability of the MoJ Commercial team; robust planning and effective communications with HMCTS Directors involved in key commercial decisions and our suppliers ensuring greater appreciation of compliance with policies and commercial regulations and the implication of failing to comply with the same. We continue to undertake a robust review of all our shared and outsourced suppliers to assess how effectively we are 'intelligent customers'. This risk will continue to be managed in 2017-18.

Connected to our commercial and supplier issues is the risk we have with **the transition to new technology suppliers (Technology Transition Programme (TTP))**. The programme will affect the majority of HMCTS' essential business applications and user tools and implementation has the potential to cause significant disruption to our business continuity whilst also inhibiting our ability to drive forward change. The risk is still a 'high' risk to HMCTS and the reduction in score is through the de-scoping and removal of certain elements from the programme rather than formal mitigation plans. To ensure appropriate governance for this programme the TTP Board is in place at MoJ level of which HMCTS is a member. This enables transparency of the issues that will affect HMCTS and provides support through the project for appropriate development plans to minimise disruption to HMCTS day to day business. Going forward we continue to have robust discussions with the MoJ who are ultimately responsible for delivery and to support them to deliver this major programme.

In January 2017, HMCTS joined MoJ in migrating its finance and HR systems to the new cross government Single Operating Platform. As with any system migration there are a number of defects in reporting and controls which are being urgently resolved with the Shared Service provider. While none of these issues are deemed to be significant there are multiple issues which when combined have hampered our ability to report accurately on a timely basis across HR and Finance activities. Additional assurance procedures and control assessment work has been implemented as part of the production of the financial statements, this will form the focus for controls and systems optimisation in the coming financial year.

MoJ are responsible for managing the network that HMCTS applications sit upon and manage the cyber security risks. Within HMCTS, as we transform our business, our cyber risks are managed by regular IT security health checks, testing for any vulnerabilities before go live. HMCTS, its contractors and third parties are required to apply the government backed cyber essentials scheme that sets out a good baseline for cyber security and can prevent around 80% of cyber-attacks.

Managing the risk of fraud

During 2016-17 HMCTS have led some successful investigations connected with alleged fraudulent activity, although the overall value and number of incidents of fraud / criminality remain low when the size of the agency and the volume of transactions undertaken daily are taken into account. To strengthen the overall approach to fraud mitigation, identification and investigation, an internal review of the fraud capacity and capability was undertaken in 2016-17, supported by a Government Internal Audit. To ensure that HMCTS is able to meet the changing threats to HMCTS and the risk of fraudulent activity a new delivery model has been developed which focuses on proactive investigations, fraud initiative and working with operational colleagues to increase awareness and reporting. More specifically for the future, this will mean undertaking data matching and intelligence led fraud drives to proactively target areas of the business identified as most vulnerable to risk and irregularity. Improvements to communications and reporting will be used to encourage staff to raise any issues, concerns or cases of irregularity.

Our approach to 'Whistleblowing'

In March 2015, the MoJ launched a refreshed whistleblowing policy across the Department (with the exception of Her Majesty's Prison and Probation Service). In July 2016, the policy was reviewed when MoJ published additional guidance for Nominated Officers on Public Interest Disclosure Act 1998. All MoJ (excluding Her Majesty's Prisons and Probate Service) whistleblowing cases are captured on a central database which provides for trend analysis and progress tracking. The Department reports on the number of cases and the effectiveness of the whistleblowing policy to Cabinet Office throughout the year. There were no whistleblowing cases reported by HMCTS during 2016-17.

Assurance is provided to the HMCTS Audit and Risk Assurance Committee on the adequacy of whistleblowing arrangements during the course of the year. The annual people survey indicated a high level of awareness of the policy and how to raise a concern.

Our approach to information security

We deal with very sensitive personal information on behalf of people involved in hearings and we take our responsibility very seriously to ensure this information is protected. Our policy is to self-refer all significant data incidents to the Information Commissioner's Office (ICO) and we continue to work closely with the ICO and other agencies to further improve our systems and learn lessons.

Governance and risk assurance oversight arrangements

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of my executive managers. They have the responsibility for the development, maintenance and reporting of the internal control framework. This, combined with observations and recommendations made by internal and external auditors in their management letters and other reports has shaped the HMCTS approach to governance and assurance.

The organisation has in place control processes to provide executive management with assurance over financial and operational risks. These processes are subject to continuous improvement and review to ensure they remain current, effective and relevant.

Compliance reporting and standard controls operate throughout the organisation with quarterly assurance reporting arrangements in place to report and escalate significant issues and risks to the next management layer when appropriate.

In addition the HMCTS Board and I gain assurance through:

- Up-to-date and comprehensive reports on performance and finance at all board meetings by the executive.
- Financial and administrative procedures which includes delegations of financial authority and segregation of duties on key financial processes.
- Assurances from Ministry of Justice for the provision of shared services.
- The Audit and Risk Assurance Committee oversees the adequacy and effectiveness of the risk management processes and the system of internal control for the organisation. The Committee regularly reviews the corporate risk register, undertakes deep dives on our key risks and oversees the production of our Annual Report and Accounts, as does the executive and HMCTS Board.
- Regular reviews of the risk profile and effectiveness of the systems of internal control through the receipt of minutes from Audit and Risk Assurance Committee, through review of performance reports and through direct feedback from the Chair of the Committee.
- Internal audit reports (see below).
- Value for money and other reports produced by the National Audit Office.

Inter-agency accountability

As Accounting Officer for HMCTS I am responsible under the Road Traffic Offenders Act 1988 for the collection of penalty notices and for their subsequent remittance to the Consolidated Fund.

I maintain effective systems of control in the fixed penalty offices which operate as part of my organisation. However, the end-to-end system of controls and reporting for fixed penalties includes areas for which I have no responsibility. For example, roadside penalties are issued and registered by front line police operating within 43 different constabularies.

Although we do not have control over police policy and procedures, we participate in periodic Pentip stakeholder meetings in order to influence systems control outcomes.

Similarly, I am responsible under the Proceeds of Crime Act 2002 for the collection of confiscation orders. I maintain effective systems of control in the courts and offices which operate as part of my organisation. However, the end-to-end system of controls and reporting for confiscation orders includes areas for which I have no responsibility. In particular, the Home Office bear overall responsibility for policy.

Internal audit and annual audit opinion

One of the key sources of independent assurance comes from the activities of the internal audit service provided by the Government Internal Audit Agency. The internal audit programme is closely linked to the key risks for HMCTS and arrangements are in place to ensure that I am made aware of any significant issues which indicate that key risks are not being effectively managed.

The Group Head of Internal Audit provided an annual overall opinion of '*moderate*' which means some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. Some areas of concern have been highlighted, including the absence of overall effective management of the Public Finance Initiative court contracts to date. Internal Audit has recognised that management are taking proactive steps and have put in place effective measures to manage the contracts going forward. Additionally, the scale of the Change Programme within HMCTS is challenging and delivery confidence within the programme is rated as amber/red so will need proactive management.

National Audit Office Reports

The National Audit Office (NAO) published its report 'Departments' oversight of arm's length bodies: a comparative study' on the 30 June 2016. The audit examined how Departments oversee and manage the relationship with their Arms' Length Bodies (ALBs) and focused on four Departments including the MoJ. The report sets out how the role and scale of ALBs vary and range between small Non-Departmental Public Bodies and large executive agencies such as HMCTS.

The report concluded that the landscape for ALBs remains confused and incoherent (despite the Cabinet Office focus on reforming and streamlining since 2015) and approaches to ALBs by Departments' differ but without following a consistent overarching framework. The NAO made recommendations which are being taken forward through the Cabinet Office and which will encompass the arrangements across MoJ and HMCTS. These include reviewing the effectiveness of mechanisms for sharing good practice and developing capability in the oversight of ALBs, working to better understand the costs and benefits of different approaches and developing and implementing a framework for effective oversight.

Conclusion

I am satisfied that we have effective governance, risk management and assurance arrangements in place as set out in this statement. Arrangements are kept under continuous review to adapt to our changing risk environment.

Where significant control issues have been identified within this statement I am satisfied they are subject to rigorous review and appropriate, effective and proportionate mitigating activity put in place to manage those issues.

Current control challenges

During 2016-17 HMCTS had appropriate governance in place to mitigate control challenges and issues. Following a robust review we have determined that none of the issues that have arisen this year were sufficiently significant to warrant disclosure, with the exception of data incidents which is set out below.

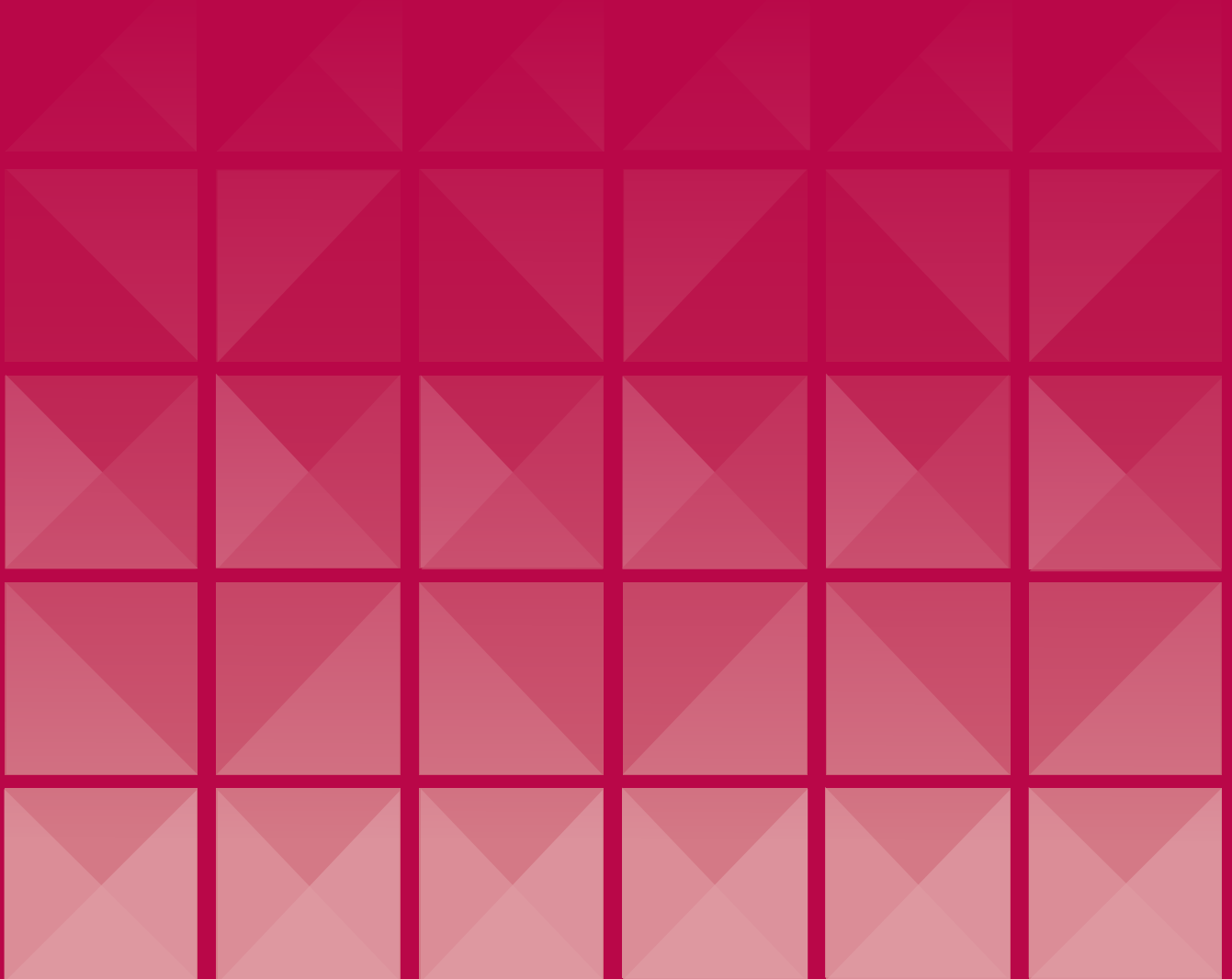
HMCTS deals with a very high volume of transactions on a daily basis, the majority include sensitive personal information of people involved in our court and tribunal hearings. Our overall level of data incidents is very low in comparison and this year we identified a 10% decrease in incidents from those reported for 2015-16 (3012 incidents in 2015-16 compared to 2750 in 2016-17, 4 of which this year were disclosed to the Information Commissioners' Office). We attribute this to an improved reporting process, increased engagement with critical business and the continuing emphasis and delivery we place on mandatory annual training. A number of reported incidents we risk assess as being more serious due to having a greater impact, and there were 16 such incidents during this year. Two of those matters were reported through to Ministers and four we self-reported to the Information Commissioner to ensure appropriate transparency. We take our responsibility for handling data very seriously and all incidents are subject to robust investigation, mitigating action to rectify mistakes and reduce the chance of recurrence is taken on a case by case basis. We continuously strive to improve the handling of our data and learn lessons from each incident.

Susan Acland-Hood

Chief Executive and Accounting Officer

11 July 2017

Section 4: External scrutiny



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

I certify that I have audited the Trust Statement of Her Majesty's Courts and Tribunals Service (HMCTS) for the year ended 31 March 2017 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Revenue and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the 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 circumstances of the HMCTS Trust Statement and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by HMCTS; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the sections entitled "Introductions", "Our performance" and "Our controls and governance" 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 HMCTS Trust Statement gives a true and fair view of the state of affairs of the collection and settlement of fines, penalties, confiscation orders and related expenditures and disbursements administered by HMCTS as at 31 March 2017, and of the net revenue 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 information given in the sections entitled "Introductions", "Our performance" and "Our controls and governance" 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 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

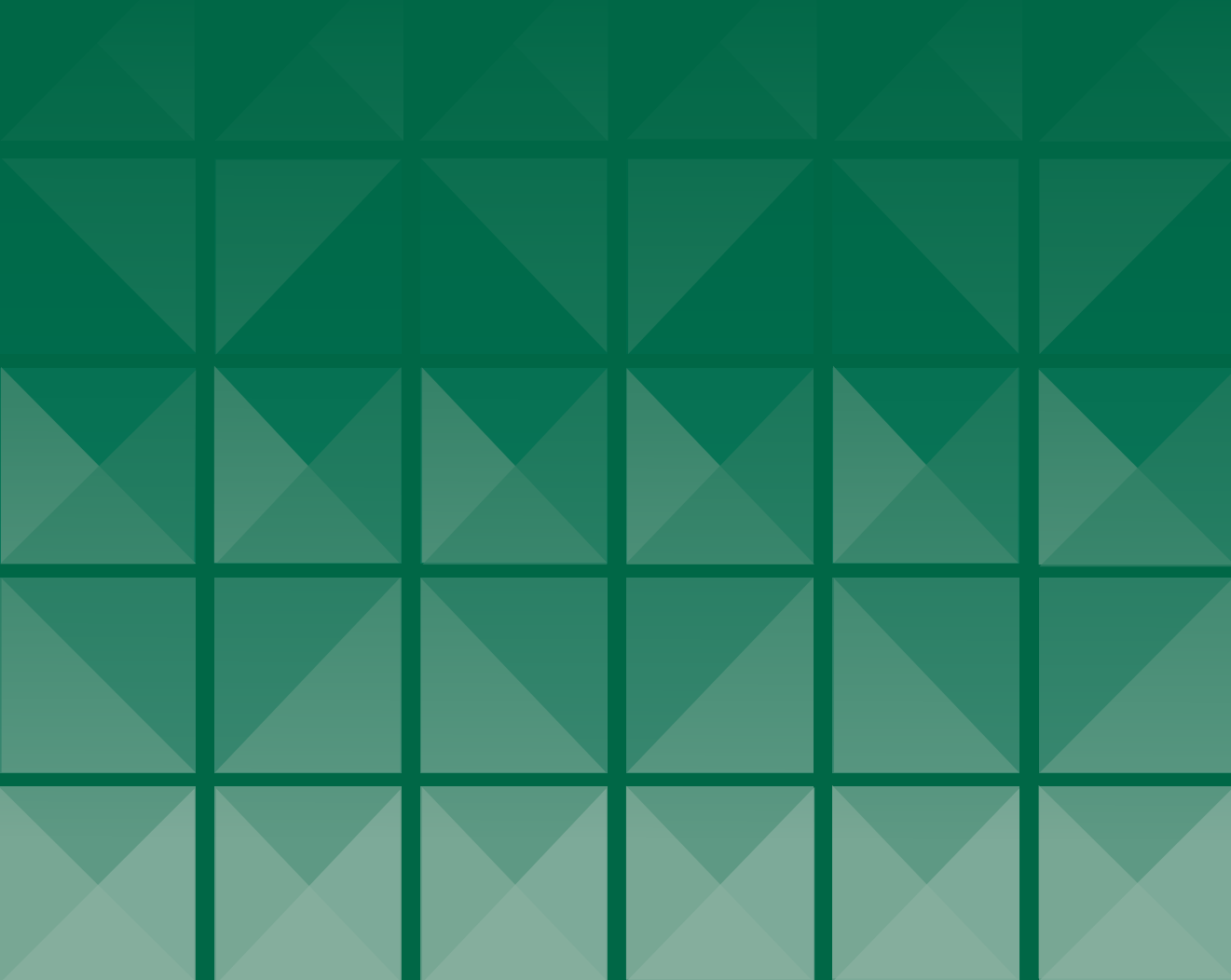
I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

14 July 2017

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

Section 5: Our expenditure



Statement of Revenue and Expenditure for the period ended 31 March 2017

| | Notes | 2016-17 £000 | 2015-16 £000 |
|--|-------|-----------------|------------------|
| Impositions revenue | | | |
| Fines and penalties | | | |
| Court fines | | 362,490 | 263,763 |
| Miscellaneous receipts | | 6,374 | 7,792 |
| Criminal court charge (remissions)/impositions | | (2,147) | 66,209 |
| Fixed penalty notices | | 103,517 | 102,375 |
| Crown prosecutors' costs | | 37,373 | 40,761 |
| Prosecutors' costs | | 92,270 | 89,465 |
| Compensation | | 46,021 | 36,661 |
| Confiscation orders | | 209,390 | 357,129 |
| Victim surcharge | | 44,785 | 37,866 |
| Total impositions revenue | | 900,073 | 1,002,021 |
| Less expenditure | | | |
| Credit losses | 2 | 188,112 | 284,933 |
| Total expenditure | | 188,112 | 284,933 |
| Less disbursements | | | |
| Revenue retained by the Ministry of Justice | 3 | 369,894 | 321,399 |
| Prosecutors' costs for the Crown Prosecution Service | | 33,173 | 36,810 |
| Prosecutors' costs | | 76,794 | 79,096 |
| Compensation for other parties | | 45,192 | 33,878 |
| Confiscation orders for Home Office | | 94,100 | 156,918 |
| Victim surcharge for the Ministry of Justice | | 34,825 | 31,438 |
| Total disbursements | | 653,978 | 659,539 |
| Total expenditure and disbursements | | 842,090 | 944,472 |
| Net revenue for the Consolidated Fund | 6 | 57,983 | 57,549 |

Statement of Financial Position as at 31 March 2017

| | Notes | 2016-17 £000 | 2015-16 £000 |
|--|-------|-----------------|-----------------|
| Current assets | | | |
| Receivables | 4 | 555,562 | 548,239 |
| Cash at bank – fines & other impositions | | 76,628 | 56,336 |
| Cash at bank – fixed penalties | | 29,114 | 8,910 |
| Total assets | | 661,304 | 613,485 |
| Current liabilities | | | |
| Payables | 5 | 370,492 | 380,656 |
| Total liabilities | | 370,492 | 380,656 |
| Total net assets | | 290,812 | 232,829 |
| Represented by: | | | |
| Balance on Consolidated Fund | 6 | 290,812 | 232,829 |

Susan Acland-Hood

Chief Executive and Accounting Officer

11 July 2017

The notes on pages 33 to 45 form part of this statement.

Statement of Cash Flows for the period ended 31 March 2017

| | Notes | 2016-17 £000 | 2015-16 £000 |
|---|-------|-----------------|-----------------|
| Net cash inflow/(outflow) from operating activities | 7 | 40,496 | (4,756) |
| Cash paid to the Consolidated Fund | 6 | - | (5,341) |
| Increase/(decrease) in cash in the period | | 40,496 | (10,097) |

Analysis of changes in net funds

| | Notes | 2016-17 £000 | 2015-16 £000 |
|--|-------|-----------------|-----------------|
| Net funds at beginning of period – 1 April | | 65,246 | 75,343 |
| Net funds at end of period – 31 March | | 105,742 | 65,246 |
| Increase/(decrease) in cash in the period | | 40,496 | (10,097) |

The following balances as at 31 March were held at:

| | Notes | 2016-17 £000 | 2015-16 £000 |
|----------------------------|-------|-----------------|-----------------|
| Government Banking Service | | 105,148 | 64,310 |
| Commercial banks | | 594 | 936 |
| Total cash balances | | 105,742 | 65,246 |

The notes on pages 33 to 45 form part of this statement.

Notes to the Trust Statement

1. Statement of Accounting Policies

The Trust Statement is prepared in accordance with:

- the 2016-17 Financial Reporting Manual (FReM) issued by HM Treasury, in particular Chapter 8.2 which deals with Consolidated Fund revenue and Trust Statements. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as interpreted for the public sector.
- the 2016-17 accounts direction issued by HM Treasury on 19 December 2016 under section 7(2) of the Government Resources and Accounts Act 2000.

The particular policies adopted in the Trust Statement are described below. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1. Basis of preparation

The Trust Statement has been prepared under the historical cost convention modified to account for the valuation of receivables and payables.

The preparation of the accounts in conformity with IFRS requires the use of certain critical accounting estimates (see note 1.8). It also requires management to exercise its judgement in the process of applying the accounting policies.

The income and associated expenditure recognised in these statements reflect those flows of funds which HMCTS receives and surrenders, in its capacity as agent, on behalf of the Consolidated Fund and other entities.

1.2. Revenue recognition

Fines and penalties are measured in accordance with Financial Reporting Manual (FReM), chapter 8.2. They are measured at the fair value of amounts received or receivable, net of judicial cancellations and remissions. Revenue is recognised when a fine or penalty is validly imposed and an obligation to pay arises. Where a penalty is cancelled due to attendance at a training course, as a result of an appeal or for other legal reasons or as a result of settlement by other valid means including imprisonment, revenue is derecognised and the derecognition of revenue is recorded as a reduction against revenue.

1.3. Expenditure

Credit losses (imposition write-offs and the change in the value of impairment for the year) are accounted for on an accruals basis. Debts written off as uncollectible and any change in the value of impairment are shown as expenditure. Underlying legislation precludes the write-off of confiscation order debt and adjustments to reflect recoverability are included in the impairment charge.

1.4. Disbursements

Disbursements are shown net of impairment and write-offs in accordance with the requirements of the FReM and IAS 39. An accrual for disbursements is made based on the value of impositions payable to parties, including compensattees, other than the Consolidated Fund.

1.4.1 MoJ specific disbursements

The MoJ is permitted to retain as income part of the value of fines and fixed penalties collected. Where part of the revenue collected is permitted to be retained, the amount to be retained is required by the FReM to be recorded as an appropriation of net revenue in the Trust Statement. As such, these retentions are disclosed in the Statement of Revenue and Expenditure as a disbursement to the MoJ. The following retentions of revenue by the MoJ are permitted by HM Treasury.

Revenue retained towards the cost of collection and administration

Retention comprises of the criminal court charge which was an additional financial imposition designed to recover some of the costs of the criminal court from those convicted of an offence and was introduced in the Criminal Justice and Courts Act 2015. On 3 December 2015 the Secretary of State laid a statutory instrument with the effect that from 24 December 2015 the criminal court charge would no longer be imposed. All charges imposed up to that point are still payable and the retention due to the MoJ is based on receipts collected in the period.

The associated revenue from which the above retained amount is derived is recorded within criminal court charge imposition revenue at the gross amount of the imposition.

Revenue retained for Victims' Services

With the agreement of HM Treasury, MoJ's justice reform unit retains £30 million per annum of additional revenue raised from fixed penalties issued for motoring offences in order to fund services provided to the victims of crime. In respect of penalty notices for disorder (PND), an amount of £10 per penalty notice issued and paid is retained by the justice reform unit of MoJ in order to fund services provided to the victims of crime.

The associated revenue from which the amount retained is derived is recorded within fixed penalty notice imposition revenue at the gross amount of the imposition.

Revenue retained under Spending Round settlements

As part of the Spending Round 2015 settlement for the financial year ended 2016-17 HM Treasury has permitted the MoJ to retain collections from fines, criminal court charge and fixed penalty impositions. The amount permitted to be retained by MoJ in 2016-17 is within an overall departmental income cap. In 2015-16 the amount permitted to be retained was capped at £340 million for all retentions, as part of the Spending Round 2013 settlement.

1.5. Net revenue for the Consolidated Fund

Net revenue for the Consolidated Fund is the value of impositions for the year from court fines, criminal court charge and fixed penalty notices, net of: impairment, write-offs, revenue retained by the MoJ, either under statute or with permission from HM Treasury, and fixed penalty revenue retained by the MoJ for funding victims' services.

1.6. Receivables

Receivables are shown net of impairments in accordance with the requirements of the FReM and IAS 39. Each class of debt has been assessed separately using performance reports to provide data concerning recoverability and the length of time it takes for debt to be repaid.

The fair value of receivables is determined by making an impairment to reduce the carrying value of receivables to the net present value of the estimated future flow of repayments discounted at HM Treasury's interest rate, currently 3.7% (2015-16: 3.7%).

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on any market. Receivables are derecognised when the rights to receive cash flows from the assets have expired.

1.7. Payables

Payables are accounted for on an accruals basis. Because HMCTS is acting as agent in the collection of all financial penalties imposed, the total value of payables, excluding the amount on which cash has been received at year end, is derived from the fair value of receivables net of impairment at the balance sheet date.

1.8. Critical accounting judgements and estimates

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

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

Impairment of debt and credit losses

Receivables are shown net of impairments in accordance with the requirements of the FReM and IAS 39. The fair value of receivables is determined by making an impairment to reduce the carrying value of receivables to the net present value of the estimated future flow of repayments discounted at the interest rate set by HM Treasury. The fair value of receivables is dependent on ongoing collection rates as well as the discount rate used in the valuation. The current year's impairment has been calculated based on a review of specific high value receivables combined with a collective assessment for all other debt. The collective impairment assessment is based on an analysis of past collection history projected forward to provide a payment stream which is then discounted back at the Treasury rate of 3.7% (2015-16: 3.7%) to calculate the net present value.

A sensitivity analysis of the key assumptions inherent in the impairment calculation is included in note 8 to these Financial Statements.

1.9. Prior period adjustment for errors

Where material errors in respect of the recognition, measurement, presentation or disclosure of elements of financial statements are discovered in subsequent periods, these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

2. Credit losses

| | Notes | 2016-17 £000 | 2015-16 £000 |
|---|-------|-----------------|-----------------|
| Debts (written back)/off | 2.1 | (24,080) | 43,844 |
| Increase/(decrease) for year in impairment of receivables | 4 | 212,192 | 241,089 |
| Total | | 188,112 | 284,933 |

2.1 Debts (written back)/off

| | Notes | 2016-17 £000 | 2015-16 £000 |
|--------------------------|-------|-----------------|-----------------|
| Court fines | | (17,725) | 29,728 |
| Criminal court charges | | 61 | 133 |
| Crown prosecutors' costs | | (1,334) | 2,041 |
| Prosecutors' costs | | (3,784) | 8,328 |
| Compensation | | (509) | 786 |
| Victim surcharge | | (789) | 2,828 |
| Total | | (24,080) | 43,844 |

Debts written off are the amounts reportable to Parliament under rules on disclosure of losses and write-offs in Managing Public Money Annex A.4.10.24. under the category of 'Claims waived or abandoned'. Included in debts written off are the following:

| | 2016-17 No. | 2016-17 £ | 2015-16 No. | 2015-16 £ |
|-------------------------------------|----------------|--------------|----------------|----------------|
| Individual write-offs over £300,000 | - | - | 1 | 500,000 |
| Made up of: | | | | |
| Company wind-ups and liquidations | - | - | 1 | 500,000 |
| Total | - | - | 1 | 500,000 |

There are no other losses or special payments reportable.

3. Revenue retained by the Ministry of Justice

| | 2016-17 £000 | 2015-16 £000 |
|---|-----------------|-----------------|
| Revenue retained by MoJ towards the cost of collection and administration: | | |
| Criminal court charges | 11,963 | 12,585 |
| | 11,963 | 12,585 |
| Fixed penalty revenue retained by MoJ for Victims' Services: | | |
| Retained from fixed penalties for motor offences | 30,000 | 30,000 |
| Retained from fixed penalties for PNDs | 174 | 261 |
| | 30,174 | 30,261 |
| Revenue retained by MoJ under Spending Round settlements: | | |
| Retained from fine collections | 255,971 | 207,693 |
| Retained from fixed penalty collections | 71,786 | 70,860 |
| | 327,757 | 278,553 |
| Total | 369,894 | 321,399 |

4. Receivables

| | Due to Consolidated Fund and third parties | | | | | | Due to Home Office | | Total £000 |
|--|--|-----------------------------|-------------------------------|--|----------------|--------------------------------------|-------------------------------------|--------------------------------|------------------|
| | Compensation £000 | Victim surcharge £000 | Prosecutors' costs £000 | Crown prosecutors' costs £000 | Fines £000 | Criminal court charges £000 | Fixed penalty notices £000 | Confiscation orders £000 | |
| 2016-17 | | | | | | | | | |
| Impositions outstanding | | | | | | | | | |
| At 1 April 2016 | 74,022 | 36,112 | 90,954 | 55,642 | 374,135 | 53,491 | 24,299 | 1,761,449 | 2,470,104 |
| New impositions | 46,021 | 44,785 | 92,270 | 37,373 | 362,490 | (2,147) | 103,517 | 143,409 | 827,718 |
| Confiscation order interest | - | - | - | - | - | - | - | 65,981 | 65,981 |
| Collections | (41,420) | (31,029) | (72,978) | (33,298) | (249,596) | (11,963) | (101,959) | (156,021) | (698,264) |
| Written back/(written-off) | 509 | 789 | 3,784 | 1,334 | 17,725 | (61) | - | - | 24,080 |
| At 31 March 2017 | 79,132 | 50,657 | 114,030 | 61,051 | 504,754 | 39,320 | 25,857 | 1,814,818 | 2,689,619 |
| Impairment | | | | | | | | | |
| At 1 April 2016 | 35,463 | 22,801 | 43,868 | 29,664 | 181,495 | 37,601 | - | 1,570,973 | 1,921,865 |
| Increase/(decrease) for the year | 1,338 | 10,748 | 19,260 | 5,534 | 64,348 | (4,325) | - | 115,289 | 212,192 |
| At 31 March 2017 | 36,801 | 33,549 | 63,128 | 35,198 | 245,843 | 33,276 | - | 1,686,262 | 2,134,057 |
| Receivables Net Book Value at 31 March 2017 | 42,331 | 17,108 | 50,902 | 25,853 | 258,911 | 6,044 | 25,857 | 128,556 | 555,562 |
| Receivables Net Book Value at 31 March 2016 | 38,559 | 13,311 | 47,086 | 25,978 | 192,640 | 15,890 | 24,299 | 190,476 | 548,239 |

4.1. Confiscation order debt – value banding by lead agency

| | 2016-17 | | | 2015-16 | | | |
|------------------------------|------------------|----------------|----------------|------------------|----------------|----------------|------------------|
| | HMCTS £000 | SFO £000 | CPS £000 | HMCTS £000 | SFO £000 | CPS £000 | Total £000 |
| Gross debt | | | | | | | |
| Up to £250,000 | 205,765 | 456 | 47,072 | 203,835 | 519 | 46,182 | 250,536 |
| £250,001 – £500,000 | 105,517 | 2,298 | 36,641 | 97,504 | 2,762 | 39,267 | 139,533 |
| £500,001 – £1,000,000 | 154,260 | 2,450 | 54,083 | 148,960 | 4,011 | 51,214 | 204,185 |
| Over £1,000,000 | 641,069 | 144,718 | 420,489 | 585,183 | 137,187 | 444,825 | 1,167,195 |
| Total gross debt | 1,106,611 | 149,922 | 558,285 | 1,035,482 | 144,479 | 581,488 | 1,761,449 |
| Impairment | | | | | | | |
| Up to £250,000 | 182,650 | 406 | 33,648 | 162,293 | 436 | 29,043 | 191,772 |
| £250,001 – £500,000 | 99,558 | 1,947 | 27,769 | 88,733 | 2,523 | 29,243 | 120,499 |
| £500,001 – £1,000,000 | 147,006 | 2,130 | 44,380 | 138,702 | 2,796 | 40,753 | 182,251 |
| Over £1,000,000 | 631,878 | 138,511 | 376,379 | 554,030 | 135,650 | 386,771 | 1,076,451 |
| Total impairment | 1,061,092 | 142,994 | 482,176 | 943,758 | 141,405 | 485,810 | 1,570,973 |
| Net book value | | | | | | | |
| Up to £250,000 | 23,115 | 50 | 13,424 | 41,542 | 83 | 17,139 | 58,764 |
| £250,001 – £500,000 | 5,959 | 351 | 8,872 | 8,771 | 239 | 10,024 | 19,034 |
| £500,001 – £1,000,000 | 7,254 | 320 | 9,703 | 10,258 | 1,215 | 10,461 | 21,934 |
| Over £1,000,000 | 9,191 | 6,207 | 44,110 | 31,153 | 1,537 | 58,054 | 90,744 |
| Total net book value | 45,519 | 6,928 | 76,109 | 91,724 | 3,074 | 95,678 | 190,476 |

The total gross debt is made up of 10,807 cases, of which: 10,171 (94%) are of value up to £250,000; 272 (3%) are between £250,001 – £500,000; 196 (2%) are between £500,001 – £1,000,000, and; 168 (1%) are over £1,000,000.

4.2. Confiscation order debt – aged debt profile by lead agency

| | 2016-17 | | | | 2015-16 | | | |
|-----------------------------|------------------|----------------|----------------|------------------|------------------|----------------|----------------|------------------|
| | HMCTS £000 | SFO £000 | CPS £000 | Total £000 | HMCTS £000 | SFO £000 | CPS £000 | Total £000 |
| Gross debt | | | | | | | | |
| 0 – 1 year | 48,069 | 7,893 | 47,052 | 103,014 | 86,959 | 1,545 | 188,298 | 276,802 |
| 1 – 2 years | 66,522 | 128 | 178,878 | 245,528 | 40,264 | 2,023 | 69,485 | 111,772 |
| 2 – 5 years | 167,595 | 44,768 | 130,489 | 342,852 | 165,267 | 43,346 | 115,619 | 324,232 |
| Over 5 years | 824,425 | 97,133 | 201,866 | 1,123,424 | 742,992 | 97,565 | 208,086 | 1,048,643 |
| Total gross debt | 1,106,611 | 149,922 | 558,285 | 1,814,818 | 1,035,482 | 144,479 | 581,488 | 1,761,449 |
| Impairment | | | | | | | | |
| 0 – 1 year | 25,877 | 3,277 | 22,740 | 51,894 | 52,014 | 929 | 144,365 | 197,308 |
| 1 – 2 years | 59,815 | - | 159,307 | 219,122 | 31,787 | 1,638 | 55,368 | 88,793 |
| 2 – 5 years | 159,385 | 42,920 | 119,876 | 322,181 | 145,403 | 41,865 | 100,514 | 287,782 |
| Over 5 years | 816,015 | 96,797 | 180,253 | 1,093,065 | 714,554 | 96,973 | 185,563 | 997,090 |
| Total impairment | 1,061,092 | 142,994 | 482,176 | 1,686,262 | 943,758 | 141,405 | 485,810 | 1,570,973 |
| Net book value | | | | | | | | |
| 0 – 1 year | 22,192 | 4,616 | 24,312 | 51,120 | 34,945 | 616 | 43,933 | 79,494 |
| 1 – 2 years | 6,707 | 128 | 19,571 | 26,406 | 8,477 | 385 | 14,117 | 22,979 |
| 2 – 5 years | 8,210 | 1,848 | 10,613 | 20,671 | 19,864 | 1,481 | 15,105 | 36,450 |
| Over 5 years | 8,410 | 336 | 21,613 | 30,359 | 28,438 | 592 | 22,523 | 51,553 |
| Total net book value | 45,519 | 6,928 | 76,109 | 128,556 | 91,724 | 3,074 | 95,678 | 190,476 |

The total debt is made up of 10,807 cases, of which: 2,005 (18%) are between 0 – 1 years old; 1,193 (11%) are between 1 – 2 years old; 2,665 (25%) are between 2 – 5 years old, and; 4,944 (46%) are over 5 years old.

5. Payables

| | 2016-17 | | Total £000 |
|---|-----------------------------------|-------------------------------------|----------------|
| | On which cash received £000 | On which cash receivable £000 | |
| Confiscation orders (Home Office) | 27,087 | 128,556 | 155,643 |
| Prosecutors' costs | 683 | 76,755 | 77,438 |
| Compensation | 5,828 | 42,331 | 48,159 |
| Victim surcharge | 11,099 | 17,108 | 28,207 |
| Fines and fixed penalty receipts payable to MoJ | 55,556 | - | 55,556 |
| Other | 5,489 | - | 5,489 |
| Total | 105,742 | 264,750 | 370,492 |

| | 2015-16 | | Total £000 |
|---|-----------------------------------|-------------------------------------|----------------|
| | On which cash received £000 | On which cash receivable £000 | |
| Confiscation orders (Home Office) | 33,925 | 190,476 | 224,401 |
| Prosecutors' costs | 112 | 73,064 | 73,176 |
| Compensation | 4,404 | 38,559 | 42,963 |
| Victim surcharge | 1,411 | 13,311 | 14,722 |
| Fines and fixed penalty receipts payable to MoJ | 16,271 | - | 16,271 |
| Other | 9,123 | - | 9,123 |
| Total | 65,246 | 315,410 | 380,656 |

The analysis in the above tables has been amended when compared to previous years to provide improved information on the creditor structure.

6. Balance on the Consolidated Fund account

| | 2016-17 £000 | 2015-16 £000 |
|--|-----------------|-----------------|
| Balance on the Consolidated Fund at 1 April | 232,829 | 180,621 |
| Net Revenue for the Consolidated Fund | 57,983 | 57,549 |
| Less: amount paid to the Consolidated Fund | - | (5,341) |
| Balance on the Consolidated Fund at 31 March | 290,812 | 232,829 |

The balance on the Consolidated Fund comprises:

| | On which cash received £000 | 2016-17 On which cash receivable £000 | Total £000 |
|---|-----------------------------------|--|---------------|
| Balance on Consolidated Fund Account as at 1 April | - | 232,829 | 232,829 |
| Balance on Consolidated Fund Account as at 31 March | - | 290,812 | 290,812 |

| | On which cash received £000 | 2015-16 On which cash receivable £000 | Total £000 |
|---|-----------------------------------|--|---------------|
| Balance on Consolidated Fund Account as at 1 April | 5,470 | 175,151 | 180,621 |
| Balance on Consolidated Fund Account as at 31 March | - | 232,829 | 232,829 |

7. Notes to the Statement of Cash Flows

| | | 2016-17 | 2015-16 |
|--|-------|---------------|----------------|
| | Notes | £000 | £000 |
| Net cash flow from operating activities is derived as follows: | | | |
| Net revenue for the Consolidated Fund | 6 | 57,983 | 57,549 |
| Adjustment for non-cash items: | | | |
| Impairment write-off/(write-back) | 2 | 212,192 | 241,089 |
| (Increase)/decrease in gross receivables | | (219,515) | (298,796) |
| Increase/(decrease) in payables | | (10,164) | (4,598) |
| Net cash inflow/(outflow) from operating activities | | 40,496 | (4,756) |

8. Financial instruments

On behalf of the Consolidated Fund and other parties, HMCTS is party to financial instrument arrangements as part of its normal operations. These financial instruments include bank accounts, receivables and payables.

IFRS 7, 'Financial Instruments: Disclosures', requires disclosure of the role that financial instruments have had during the year in creating or changing risks an entity faces in the course of its operations. As HMCTS is acting as agent on behalf of the Consolidated Fund and other parties in collecting and surrendering financial penalties imposed by the judiciary and the police, it cannot incur losses through the Trust Statement. Write-offs and impairment charges disclosed in the Income and Expenditure Statement reflect the non-recoverability of gross debt since its obligation to surrender financial penalties is limited to the amount it is able to collect in revenue. HMCTS, on behalf of the Consolidated Fund and other parties, has no requirement to borrow or invest surplus funds. As such, HMCTS, in its capacity as agent, is not exposed to the degrees of financial or market risk facing a business entity acting as principal.

a) Carrying amount and fair values

The fair value of cash balances approximate their carrying amount largely owing to the short term maturity of this financial instrument which is less than three months.

The fair value of receivables is determined by making an impairment to reduce the carrying value of receivables to the net present value of the estimated future flow of repayments discounted at the Treasury rate of 3.7% (2015-16: 3.7%).

The key assumption inherent in the model used to calculate the impairment provision is that the estimated future flow of repayments reflects historical trends and, as such, there is inherent uncertainty in the estimated provision. The impact of the following reasonable possible alternatives to this assumption is reflected in the table below:

| Assumption | Change in assumption | Increase/(decrease) in net receivables | |
|----------------------------|----------------------|--|---------------|
| | | 2016-17 £m | 2015-16 £m |
| Projected cash collections | +10% | 46.6 | 46.1 |
| Projected cash collections | +5% | 23.3 | 23.0 |
| Projected cash collections | -10% | (46.6) | (46.1) |
| Projected cash collections | -5% | (23.3) | (23.0) |

There is no effect of a change in the discount rate as the discount rate remains unchanged from the previous year.

The fair value of payables on which cash is receivable at the balance sheet date is derived from the fair value of the related receivables balance.

b) Liquidity risk

Liquidity risk is the risk that HMCTS, on behalf of the Consolidated Fund and other parties, will encounter difficulty raising liquid funds to meet commitments as they fall due. HMCTS is obliged to surrender only those funds that it has collected and banked. As such, HMCTS, in its capacity as agent, does not have significant liquidity risk.

c) Credit risk

Credit risk is the risk that a third party will default on its obligation to HMCTS on behalf of the Consolidated Fund and other parties, thereby causing the Consolidated Fund and other parties, for whom HMCTS acts as agent, to incur a loss.

Credit risk arises from deposits with banks and receivables. The maximum exposure to credit risk at the balance sheet date is:

| | 2016-17 £000 | 2015-16 £000 |
|--------------|-----------------|-----------------|
| Cash at bank | 105,742 | 65,246 |
| Receivables | 555,562 | 548,239 |
| | 661,304 | 613,485 |

Cash at bank comprises liquid bank balances held with commercial banks, including those administered through the GBS.

The size of the risk inherent within the trade receivables balance (shown net of impairment above) is reflected in the receivables impairment which totals £2,134 million (2015-16: £1,922 million). HMCTS, through the Governance and Risk management structures outlined in the Governance Statement, continues to assess and implement programmes to increase collection of receivables.

d) Currency risk and interest rate risk

There is no exposure to currency risk as all financial penalties are imposed, collected and payable in sterling. Whilst interest is charged on unpaid confiscation orders, the interest charged on the outstanding receivable balance is only payable to the Home Office when received from the debtor.

9. Events after the reporting period

In accordance with the requirements of IAS 10, 'Events After the Reporting Period', post Statement of Financial Position events are considered up to the date on which the Accounts are authorised for issue. This is interpreted as the same date as the date of the Certificate and Report of the Comptroller and Auditor General.

A General Election was held on 08 June 2017. This is a non-adjusting event. There is no significant impact on these financial statements

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