



HM Courts &  
Tribunals Service

# HM Courts & Tribunals Service

## Annual Report and Accounts 2016-17

Annual report presented to Parliament to section 1(4) of the Courts Act 2003 and section 39(3) of the Tribunals, Courts and Enforcement Act 2007.

Accounts presented to the House of Commons pursuant to Section 7 of the Government Resources and Accounts Act 2000 and to the House of Lords by Command of Her Majesty.

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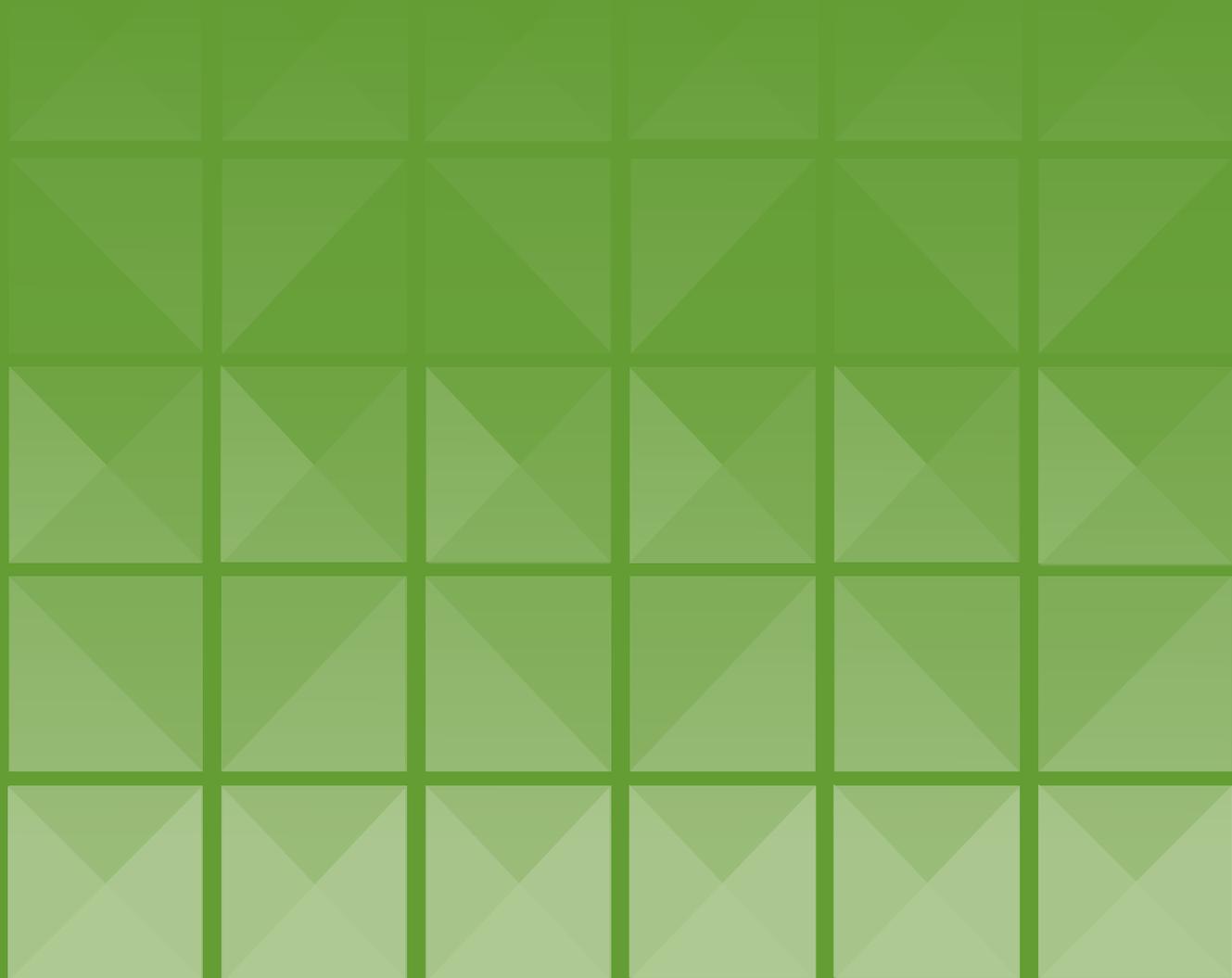
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# Section 1: Introductions



## 1.1 Introduction by the Lord Chancellor, the Lord Chief Justice and the Senior President of Tribunals

HM Courts & Tribunals Service has, over the last year, continued to carry out the radical reform programme on which we have embarked. Through the hard work and real dedication of its staff, working with the judiciary, we are starting to see how the changes brought about through the programme will improve the delivery of justice for many years to come.

Self-evidently justice is at the centre of the prosperity and good order of our nation. The changes that will take place over the next few years will when completed revolutionise how justice is delivered. We will provide a system of court administration that will enable justice to be delivered in a modern, effective, proportionate and accessible way. Our system will be a world leader. We are investing to build a modern court administration that will support the delivery of justice for every citizen and every organisation that seeks recourse to justice.

During 2016-17, the planning of previous years has resulted in the delivery of some early stages of the transformation which are already starting to have an impact and make a difference. In particular:

HMCTS have **made significant progress in the digitalisation of all criminal courts:** approximately 40,000 lawyers are connecting 54,000 devices to our WiFi per week, enabling them to work in a more effective way whilst at court.

The facility for taking a **plea on line** has been introduced for certain traffic offences, so those accused of minor offending can enter their plea online.

The **'Help with Fees'** service has made it easier for people to check whether they can get fee help, reducing the number of applications that need to be corrected and resubmitted, saving £1 million a year.

The ability to **apply for a divorce online** is being trialled to help with, amongst other things, the incorrect completion rate for divorce applications. This has proved successful and will pave the way for further online developments over the next year.

HMCTS have been gathering feedback from users of the **Social Security and Child Support Tribunal** so that a system can be developed which will enable decisions in certain cases to be made online without the need for the parties to attend a hearing before the tribunal in person.

The **'Every Witness Matters'** handbook was launched within HMCTS to help staff understand and meet their obligations in the Victims' Code and the standards in the Witness Charter.

These are just some of the changes that have taken place over the course of the last year. They are, and can be seen by all as, the first steps in the change that is underway.

While undertaking this radical reform programme, the day to day work of all the courts and tribunals has continued in delivering justice as speedily and efficiently as possible under the current systems. We are grateful to the staff of HMCTS and to the judiciary whose hard work has made that possible.

Finally, we would like to welcome Susan Acland-Hood as the new Chief Executive of HMCTS. Susan joined in November 2016. She has already made an immediate impact in her leadership of HMCTS and the reform programme and in the relations with the hard-working staff of HMCTS, the judiciary, the Ministry of Justice and all others interested in the delivery of justice.

We would also like to thank Natalie Ceeney who championed the transformation as HMCTS Chief Executive until May 2016, and Kevin Sadler, who acted as Interim Chief Executive until Susan's arrival. Both contributed a great deal and made a real difference by laying the firm foundations on which the reform programme will proceed.

**The Rt Hon David Lidington**  
Lord Chancellor and  
Secretary of State for Justice

**The Rt. Hon. The Lord  
Thomas of Cwmgiedd**  
Lord Chief Justice of  
England and Wales

**The Rt Hon Sir Ernest Ryder**  
Senior President of Tribunals

## 1.2 Foreword and introduction by Susan Acland-Hood, Chief Executive

I am delighted to be writing the foreword for this year's HMCTS Annual Report and was enormously proud to be appointed Chief Executive at the end of last year.

Our courts and tribunals underpin justice and affect the lives of millions of people every year. We rightly enjoy an outstanding international reputation for the quality of our justice system; but we know that technology and modern ways of working could make it better yet.

Our vision, delivered with the full and welcome support of the senior judiciary and the wider Ministry of Justice, is a radical one – to modernise and upgrade our justice system so that it works even better for everyone, from judges and legal professionals, to witnesses, litigants and the victims of crime.

The £1 billion change programme for courts and tribunals is the most significant set of reforms to the system since Victorian times. Now in our second full year of delivery, we are already making a real change to the lives of the people who use the system.

From model victim and witness facilities to specialised children's rooms, we are concentrating on improving the experience for some of the most vulnerable users of our services. The first of our new digital services that have been launched this year have been received extremely positively: the Help with Fees service in the family and civil courts has enjoyed more than 85% positive user feedback; and our online plea service has meant that people can plead guilty to certain minor offences and be sentenced online and get on with their lives more quickly. Also this year, we have digitally equipped all of our criminal courts, and new technology has saved us from printing more than 30 million pages of information.

As more of our products and services are successfully transformed, the difference between what has been previously considered 'reform' and what is considered 'business as usual' will become less distinct. 'Reform' is no longer an idea on a page or a picture of a theoretical future – it is a series of changes to how we work now that will make us better at what we do today.

All of this is set out in more detail in this year's report, alongside the annual accounts, which reflect another strong financial performance for HMCTS. While our programme of change has at its heart improving our service for those who use it, I am absolutely clear of our responsibilities in terms of ensuring value for money in investing public funds. Once delivered, our programme will bring annual savings of £320m, but our focus on value for money is just as strong when it comes to this period of delivering our plans.

Finally, I would like to thank my immediate predecessors, Kevin Sadler and Natalie Ceeney. It is thanks to their stewardship of HMCTS that I am inheriting a well-rounded reform programme, as well as a strongly performing and impressive organisation and an accomplished senior management team, together with whom I look forward to delivering this once-in-a-generation change to our services.

**Susan Acland-Hood**  
**Chief Executive and Accounting Officer**

## 1.3 Foreword by Robert Ayling, Independent Chairman of the HM Courts & Tribunals Service Board

This year's report sets out the substantial progress that has been made in delivering HMCTS's ambitious programme of reform.

As the then Lord Chancellor, the Lord Chief Justice and the Senior President of Tribunals set out in their joint statement in September, "the vision is to modernise and upgrade our justice system, so that it works even better for everyone". At its heart, it really is as simple as that.

Behind that simple aim, of course, lies all of the complexity that you would expect from a £1 billion programme of change that will bring the courts and tribunals service into the twenty first century.

The success of our plans relies on the continued support of the judiciary and the Ministry of Justice, for which the Board and I are grateful. It relies on our partners across the justice system, for whose help and guidance we are thankful and with whom we will continue to consult and work as our plans develop. But most of all, it relies on the hard work and commitment of everyone who works for HMCTS, and to them we are truly indebted.

The Board and I certainly do not underestimate the challenges that change on this scale brings. We know that new technologies and ways of working do not always work as intended first time round, and that it is the patience and feedback of staff using and developing those systems that enables them to improve. We know that court closures have an enormous impact, and there have been further decisions announced in London this year, alongside the continued closures that were announced last year. And we know that the uncertainty that comes with a six-year programme of change can create a difficult environment in which to work, but that our staff have once again delivered improvements to performance against this backdrop.

But we also know that the changes that we are already bringing about are making people's lives easier and improving the service that we offer. People can now plead guilty online for certain minor offences, removing the need to go to court. Our online 'Help with Fees' service in family and civil courts and tribunals has made it easier for people to check their eligibility for fee help, dramatically reducing the number of applications returned and receiving 85% positive feedback. And our digital case system in the Crown Court has saved a pile of paper the size of the Burj Khalifa, producing a single electronic bundle for judges and legal professionals and avoiding miscommunication and delay.

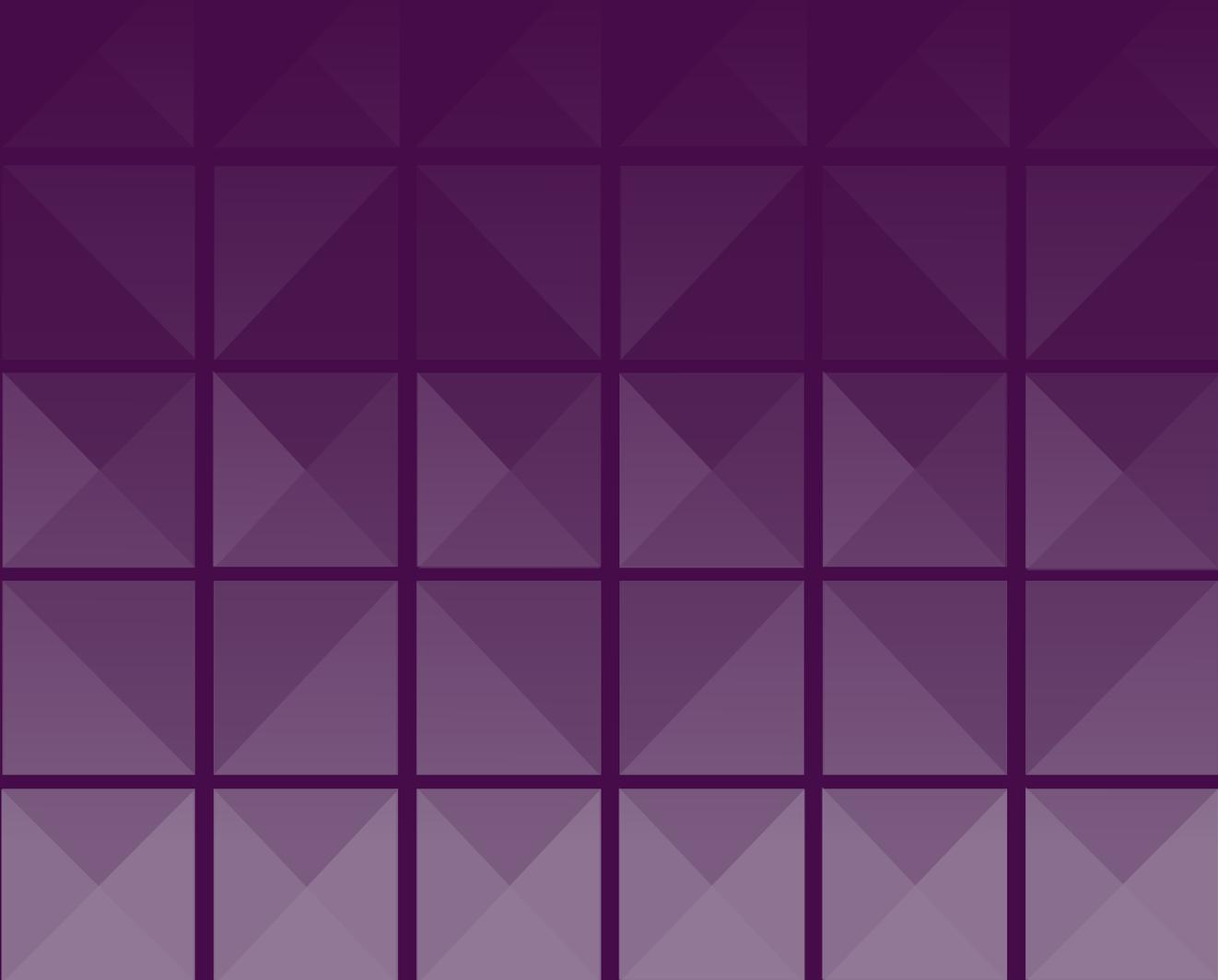
The Board saw the digital case system in action at Reading Crown Court in October, and more recently we saw Digital Mark-Up being used at Chelmsford Magistrates Court, which has fundamentally changed the way in which case outcomes are recorded and processed. To the staff at those courts, and to everyone working in courts and tribunals across HMCTS, the Board and I offer our sincere thanks.

I was delighted to welcome Susan Acland-Hood as our new Chief Executive this year. Susan joined in November, but is already bringing her wealth of knowledge and experience to bear in improving the service that HMCTS offers and steering the delivery of reform. I am also delighted that Kevin Sadler, having served with distinction as Interim Chief Executive for six months, has been appointed as Deputy Chief Executive of HMCTS. Susan and Kevin make a formidable team, and HMCTS is lucky to have them, and the rest of the senior management team, at the helm.

Finally, I would like to thank my colleagues on the HMCTS Board for their work over the course of the year. This year saw District Judge Michael Walker's tenure on the Board come to an end, after six years as a judicial member, with three years before that on the Board of Her Majesty's Court Service. I would like to thank him for his long and distinguished service to HMCTS. Lord Justice Adrian Fulford's tenure as Senior Presiding Judge also ended this year, and I thank him for his service on the Board. He will continue to contribute to our change programme through his role as Judge in Charge of Reform, and we welcome Lady Justice Julia Macur as a Board member in her role as Senior Presiding Judge.

**Robert Ayling**  
Chairman

# Section 2: Our performance



## 2.1 About us: who we are and what we do

Her Majesty's Courts and Tribunals Service (HMCTS) is responsible for the administration of the criminal, civil and family courts in England and Wales, tribunals in England and non-devolved tribunals in Wales, Scotland and Northern Ireland. Our role is to run an efficient and effective courts and tribunals system to support the delivery of justice. We enable the rule of law to be upheld through our administration, we provide access to justice and support the judiciary, tribunal members and the magistracy in exercising their judicial functions independently.

HMCTS was created in 2011 as an executive agency of the Ministry of Justice (MoJ). It operates on the basis of a partnership between the Lord Chancellor, the Lord Chief Justice and the Senior President of Tribunals. It is our job to enable them to discharge their responsibilities effectively.



Our justice system matters for every citizen and for the role we play in the world. In just a few years we will have revolutionised how justice is administered with the lives of people at its heart. Even if they only touch it once and fleetingly, the experience we want to deliver will be one where every customer feels that they've been treated swiftly, fairly and with respect; that what matters most to them matters equally to us.

We are investing more than £1 billion to build a modern system that works for everyone – from victims, witnesses and applicants, to judges, legal professionals and HMCTS staff. This wholesale transformation programme is about more than upgrading our technology and our buildings – we are revisiting our fundamental assumptions about how justice can best be delivered to those that need it in a modern era.

By focusing our energies on delivering a better customer experience and harnessing the power of technology to enable us to work better and smarter, we plan to build a modern system for administering justice which will benefit those who need it most, for generations to come.

In 2016 we launched **Justice Matters**, which sets out for our own staff the vision and strategy for the change we are making. At the same time, the Lord Chief Justice and the Senior President of Tribunals introduced **Judiciary Matters** to all judicial office holders.

### We make a difference to people involved in the justice system

The **average time** for the disposal of a care or supervision application in 2016 was 26.9 weeks, an improvement from 28.3 weeks in 2015



The **number of days** from first listing to completion for all criminal cases in magistrates' courts was 18 days in 2016, an improvement on the 21 days in 2015

We provided **interpreters and translators** for around **148,000** people involved in court and tribunal proceedings in over 215 languages



In 2016-17, we enabled **137,495 cases** to be **heard via video-link** (a 10% increase from 2015-16)

We have digitally equipped all criminal courts: approximately 40,000 legal professionals are **connecting 54,000 devices to our WiFi** per week, with 15 terabytes of data consumed to date (equivalent to more than 4.5m photos)



We make a difference to people involved in the justice system



Our online plea service has completed national roll-out for certain traffic offences, so that those accused of minor offending can enter their plea online

Our **Help with Fees** service has made it easier for people to check whether they can get fee help, slashing the number of applications that need to be sent back and filled in again, and saving £1m a year. The service has positive user satisfaction ratings of more than 85%



New digital technology has saved us from printing the equivalent of over **30 million pages** of information



**5,767 reasonable adjustments** were made for customers with disabilities to access services and information



We make a difference to people involved in the justice system

We responded to **19,297 complaints**, of which 90.1% were resolved at first contact. We also received **4,282 compliments**



We assisted **Ministers and our Chief Executive** in providing assistance to **over 1,000** items of correspondence from Members of Parliament who wrote to them about HMCTS on behalf of their constituents

Approximately 3,000 15-18 year olds from 200 **secondary schools participated in Bar mock trials** held across 25 court sites, developing their advocacy, communication and other employability and social skills



## 2.2 Our performance: delivery against our 2016-17 priorities

We have embarked on a journey to transform the way that justice is administered. As **Justice Matters** sets out, our reform programme will focus on our people, settings and technology, making sure that all three serve citizens well. In support of these aims we had three strategic priorities in 2016-17.

Our core priorities this year remained the same as our overall purpose to support justice, drive modernisation and improvements and simplify services. Our **three Strategic Priorities** enabled us to embark on our change programme, as well as maintain and continuously improve our business as usual. This laid the foundations for transforming our organisation and the services we provide and put the citizen at the centre of the justice system.

Our three strategic priorities in 2016-17 were:



These three objectives were fundamental to all the work HMCTS undertook in 2016-17.

## Improving our services – better, simpler, cheaper

We undertook to continue to deliver the enabling elements of the Change Programme by introducing a unified business model, streamline and simplify processes and automate where possible. We also started to modernise our estate.

In early 2017 HMCTS became directly responsible for all estates matters and the HMCTS Property Directorate was created. Throughout 2016-17, working with the MoJ and the HMCTS Change Programme, we have sought to **improve the quality and efficiency of our court and tribunal estate**, while making sure that access to justice is maintained and it will meet the needs of a modernised service. This has been achieved in a number of ways and specifically we have been able to hold hearings away from traditional courts - for example by holding civil hearings at the Tunbridge Wells council building. We have also increased the number of locations where victims and witnesses can provide evidence by video link and avoid the need to travel to court.

In February 2016 a series of court closures were announced and throughout the last year HMCTS have been working on **securing the exits from those sites, as well as investing in 26 existing sites** to ensure the smooth transition of work from those courts which have closed. An example of work undertaken includes the closure of Chichester Magistrates' Court. As a result, enabling works were required at Havant Justice Centre to accommodate the Residential Property Tribunal Service. This included the conversion of three separate offices into an open plan office, provision of communal judicial and staff facilities including an Equality Act compliant toilet and facilities, adaptation to courtrooms, consultation rooms and judicial rooms, the creation of a medical room, and the creation of Equality Act compliant main entrance doors. Following the completion of enabling works it was evident that some very minor decorative work to judicial chambers and the public waiting area of the building would have a high impact and were duly carried out to a positive reception by the public and judiciary. The works at Havant Justice Centre provides just one example of work that has been carried out to help provide improved buildings that can better serve the needs of each customer and those who work in our buildings.

We continued to roll out the **online plea system** for traffic offences to all 43 police forces, providing an easier way for defendants to plea, making the court process faster and more proportionate in dealing with the offences.

The service allows users to plead guilty or not guilty to their driving offence and by making a plea online there is no need to go to court on the hearing date. Those who plead online also receive an early notification of their sentence where a financial imposition has been imposed by the court.

Approximately 75% of users were satisfied or very satisfied with the online plea system (18% were neutral).

“ Doing it online was a lot easier than the paper version

– Feedback from a defendant on using the online plea system

This is a key reform to the way the criminal justice system deals with adult summary-only, non-imprisonable offences where there is no identifiable victim, such as speeding, vehicle excise duty and fare evasion cases. These account for about 850,000 cases per year in the magistrates' courts. **The Single Justice Procedure (SJP)** enables a single magistrate to sit with a legal advisor outside the courtroom in cases where the defendant does not request a hearing, and to make decisions where all of the evidence is in writing, or deal with 'guilty' pleas without the defendant or prosecutor being present. The SJP is now live nationally across all 43 police forces in England and Wales as well as for cases from TV Licensing and Driver Vehicle Licensing Agency.

**Video conferencing** enables any person involved in court proceedings to participate in a hearing, reducing the necessity to physically attend court. In the past three years HMCTS has expanded and modernised our video network, enabling video options to be used when considering the needs of witnesses, victims and defendants. During 2016-17, 137,495 video links were used in the Crown and magistrates' courts. This helps our customers by not having to travel to court to participate in hearings, increasing access to justice and reducing travel time and costs, increased accessibility for our most vulnerable users; victims and witnesses can attend court and give evidence without needing to be in the same physical location as the defendant, avoiding a potentially stressful experience and helping to reduce fear and intimidation and reduced costs and hearing delays due to less prisoner transportation.

We have started to transform the current service for people **applying for probate** under the Non-Contentious Probate Rules (the rules that govern probate procedures) in England and Wales. We have done this by providing a digital, user designed application form and a case management system to actively manage probate applications. We have conducted user research with a number of personal applicants. From this research we have been able to map the journeys that users follow when applying for probate, and the points of frustration in the process. As a result of this research a new 'save and retrieve' function has been created to allow users to complete the application in their own time, at their own pace and when they have collected all the necessary information. Research also highlighted the vulnerability of the users and the impact of grief on applicants as they fill out the form. As a result the language is being simplified away from legal jargon, and telephone support will be put in place for those requiring digital assistance. In the future webchat and face-to-face support will also be in place to assist users in applying digitally.

From January to December 2016, HMCTS received over 122,000 civil enforcement related applications which include **Attachment of Earnings and Charging Orders**. These are key enforcement mechanisms in civil cases, whether they result from a business enforcing a contract or a member of the public making a small claim. From 6 April 2016, a new centralised and streamlined process was created by moving work from 172 locations to a central unit at the county court money claims centre based in Salford.

We introduced **Help with Fees** in October 2015 to make it simpler and quicker for the public to apply for help with their civil court and tribunal fees. This ensures that the courts and tribunals remain available and accessible to those who need them, regardless of their personal circumstances. In July 2016 we launched a new online service at GOV.UK that allows the public to apply for fees digitally and provides an end-to-end online service incorporating swift eligibility checks with the Department for Work and Pensions. This reduces the amount of time our users wait for a decision and reduces administrative time. This new system has sped up processes, helped clear backlogs, improved the user experience and saves public money. We have an assisted digital call-back system in place for those who have difficulty applying online. User satisfaction with the online system is 86%.

We are piloting a service that allows applicants to **Apply for divorce** online. At present, up to 40% of all applications are rejected due to forms being completed incorrectly. We established that if we could improve this part of the process first then this would vastly improve the applicant's experience. The new approach is being piloted in the East Midlands Divorce Centre. The pilot started on the 25 January 2017 and has proven extremely successful.

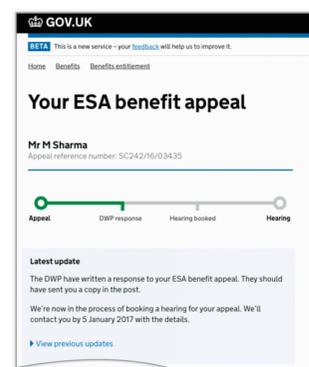
“ It's nice to see a system that works and was easy to follow

Feedback on the pilot from an applicant who used the service to complete his divorce  
[Source: [insidehmcts.blog.gov.uk](http://insidehmcts.blog.gov.uk)]

While it is a small scale pilot it has allowed us to build confidence in the design of the system before we add more features to it to make it a fully online experience and extend the pilot to a wider audience. We have engaged with legal practitioners to update them on our plans for the future and to start gathering the particular user needs of the professional community.

The project is working in an agile way, building the service in stages. Following results and feedback on the initial pilot, the next stage of testing will be extended so that selected users will be able to make their application from home. There will also be Government Digital Service assessment reviews before it is released to the public on GOV.UK.

Since summer 2016, we have been gathering feedback from users, stakeholders and partners of the **Social Security and Child Support Tribunal** so that we can develop a system to enable cases to be decided online without the need to attend the tribunal hearing in person. One concern which came out clearly from the research was that users were unsure where they were in the appeal process and what would happen next. Following this research, we have developed an online tool called **Track your Appeal** which shows a user how their appeal is progressing using a simple indicator bar. In addition, users can opt into a messaging system to receive regular updates by text and email as the appeal progresses through each stage. The pilot of the prototype will take place during summer 2017 and will focus on a cohort of users who volunteer to sign up to Track your Appeal. The tool will then be rolled out and improved as feedback identifies new areas for development.



### Building our organisation and people – listen, learn, improve

In the last year we have sought to make sure we have the right people in the right place with the right skills. We have continued to establish a common purpose for our organisation and our people as well as starting to define our future structure.

In 2016-17 we began the process to transform our compliance and enforcement service as this will contribute to reforming HMCTS to provide a modern and efficient justice system. We started to define what we would need in a customer centric, data driven service which ensures orders of the court are complied with and to enable a transformed service to be delivered by 2020. 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. They 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 HM Revenue and Customs and Department for Work and Pensions, which has enabled the team to gain up to date information on current addresses and employment and benefit status and then apply the appropriate enforcement sanction.

To develop our staff, we provided **apprenticeships** for 56 people across HMCTS during 2016-17. The majority of apprentices (88%) worked in business administration, customer service, front-line team leadership, and IT. The remainder worked in operational delivery. Apprenticeships give individuals of all ages the opportunity to develop skills, improve confidence and further their career while gaining experience on the job.

In order to support our leaders in delivering reform and leading our staff through the transformation of HMCTS, we have **delivered emotional intelligence insight and tailored coaching** for our senior leaders. As part of this we led our senior leaders through an emotional intelligence profiling assessment to allow them to increase their self-awareness and their awareness of their colleagues and those that they lead. This has enabled our leaders to better support our staff as we progress through the transformation journey and, where we have identified gaps, we have put in place specific development to support them.

We have recognised an emerging talent and capability gap in our pipeline to senior leadership roles as well as a lack of diversity. As a result, a detailed plan has been devised to create an **accelerated development and placement programme** which will be launched in spring 2017. The programme has been developed to target those from diverse backgrounds, also supporting social mobility, initially at Band B and C levels then expanded to support the development of staff in Band A.

As already identified, HMCTS has embarked on an ambitious modernisation programme. This will bring unprecedented levels of change, both in scale and pace, so we launched **One Conversation** in late 2016 as our engagement programme with all staff. It's called 'One' because it's about bringing us together as one HMCTS and will involve regular events as we progress through our transformation. It has been designed to contribute towards **Justice Matters** – our vision and strategy. One conversation is a dynamic, dialogue-based approach to engagement, created with our leaders and delivered by our leaders. But importantly, it is for everyone, everywhere, together.



Based on feedback from the One Conversation events, we created **One Update** in March 2017 as a tool to help keep the dialogue flowing between the One Conversation engagement events. It is designed to be a short, bitesized interactive experience, providing real-time updates on changes taking place and encouraging staff to be curious, ask questions and to feel listened to.

We introduced tools and support for new staff and managers to ensure everyone has a clear understanding of the Change Programme and their role. The materials are designed to offer new starters an experience which helps them to get on board with our vision and purpose, while helping them settle in to their new role quickly. We also produced a series of different 'knowledge kits' for Senior Civil Servants, contractors and consultants, new to HMCTS.



A new integrated approach to **talent and performance management** for our people has been designed to support our staff through the transformation of HMCTS. The design will encourage leaders to better understand the support and development their staff need both now and in the future, as well as their strengths and aspirations. This approach will be trialled across HMCTS from April 2017 with dedicated trial groups supporting its evaluation.

HMCTS signed up to the Mindful Employer Charter, with the aim of promoting good mental health and inclusion in the workplace. As part of this a new **Inclusion and Wellbeing** leadership group is being created to look at perceived or real exclusion, discrimination, mental stress caused by the workplace, and our cultural approach to our people and their wellbeing. The group will be established in 2017-18 to bring together the work of numerous working groups under a cohesive wellbeing and inclusive strategy that aims is to improve the wellbeing of our staff and enhance their experience at work.

As part of the ongoing transformation of HMCTS, we have developed a **Capability Assessment Framework** to help us understand where our strengths are and where our areas for development will change to meet our future needs. We delivered training for 700 frontline leaders to help them identify what skills they currently have and to help them develop those skills they will need going forward.

### Connect and engage with our partners and users – connect, trust, contribute

A priority for HMCTS in 2016-17 was to develop a customer focus and to do that we needed to have a strong understanding of customer insight. Our aspiration was to improve our services to the public and we have started to do that.

Victims and witnesses are at the heart of the criminal justice system. HMCTS, together with other Criminal Justice Agencies, is committed to transforming and improving the experience of victims and all witnesses within the criminal justice system. In November 2016 we launched a revised **Every Witness Matters** handbook and supporting toolkit to help our staff understand and meet our obligations in the Victims' Code and the standards in the Witness Charter. This was in response to research and consultation with criminal justice system partners and victims and witnesses to identify what steps could be taken within HMCTS to improve the services provided to victims, and prosecution and defence witnesses.



For children and young people, being called to give evidence in court can be very daunting; the court environment is unfamiliar to them and can seem strange. Liverpool Civil Justice Centre **transformed their children's room** by getting volunteers involved. Supporting local and regional work, we launched a children's room improvement scheme in December 2016. Through this we provided a small amount of funding to each region and this was used to improve 40 children's rooms.

We have also established **model victim and witness rooms** at Aldershot Justice Centre, Liverpool Criminal Court, Nottingham Justice Centre, Manchester Magistrates' Court and Newcastle Combined Court. We will use these model rooms to raise standards across the estate.



The photos don't do the room justice. The structural changes now prevent anyone listening in to the room and add a layer of safety for victims and witnesses. Our volunteers really like the room; it is above and beyond what they expected. **Witness Service at Aldershot Justice Centre**

In June 2016 we launched the **first blog post** for **Inside HMCTS** on GOV.UK ([insidehmcts.blog.gov.uk](http://insidehmcts.blog.gov.uk)). We use the blog to provide regular updates to our customers, stakeholders, partners and professional users on news and upcoming changes to our services. Our blog policy sets out how people can participate in providing comments. Examples of blogs we have posted covered topics such as help with court and tribunal fees, our online plea service and an update on results from the Criminal Justice System Common Platform Programme research sessions for defence practitioners held at Liverpool Q&E Law Courts in January 2017. The sessions tested the designs of the hearing result screens and hearing events.



In February 2017 we launched **Growing ideas that matter**. This is a collaborative, internal online forum that encourages engagement and innovation in making improvements for our staff and customers. The forum was developed in response to a suggestion by a member of staff and each month we set new challenges inviting views and ideas on specific topics.

Our first challenge focused on changes we could make to ensure our customers have the best possible experience when they arrive in one of our buildings. For example, a number of people suggested better use of screens and tablets. As a consequence, we will be piloting tablets for use by ushers and testing a new notification service to keep customers updated of waiting times on the day.

Our new Customer Insight Team was established this year and has already developed a set of **key customer insight packs** that are being used to improve the design and delivery of new and existing services. These packs pull together understanding of our customers from existing research and analysis of our internal data (such as complaints and call volumes) for our key customer groups and services. The team is also actively supporting improvements to the current customer experience by undertaking research and making recommendations in key areas, for example on the support we provide to jurors.

We established an **HMCTS Customer Forum** and sought ideas from front-line staff about the customer service we provide and begun to act on them, improving services such as Courts & Tribunals Finder and re-energising the Victim and Witness Delivery Group.

### Performance statistics

HMCTS measure performance across all jurisdictions against our operational Key Performance Indicators (KPIs), as part of our commitment to improving the services that we offer.

In line with the wider government commitment to transparency, we publish on a quarterly basis national statistics on activity in the magistrates' courts, the Crown Court, the County Court, the Family Court, the High Court, Court of Appeal and tribunals in England and Wales and non devolved tribunals in Scotland and Northern Ireland.

Key performance measures that are monitored and report against include:

The number of outstanding cases and effective trial rates in the Crown and magistrates' courts:

- In the magistrates' courts outstanding cases reduced by 10.9% from 327,228 at the end of 2015 to 291,422 at the end of 2016. Receipts fell by 3.9% from 1,591,592 in 2015 to 1,529,030 in 2016 whilst disposals decreased by 1.7% from 1,594,051 to 1,566,303. The magistrates' courts effective trial rate decreased slightly from 47.7% in 2015 to 47.1% in 2016.
- In the Crown Court, outstanding cases fell by 17% from 50,876 at the end of 2015 to 42,149 at the end of 2016, and there was a 20% reduction in trial cases outstanding, from 43,175 to 34,565. The effective trial rate improved from 50% to 51% in 2016.

The time between first listing to completion for all criminal cases:

- The number of days from first listing to completion for all criminal cases in magistrates' courts was 18 days in 2016, an improvement on the 21 days in 2015. The number of days from sending a trial case to the Crown Court to main hearing has remained static at 138 days.

The time taken to deal with claims from date issued to trial in civil courts:

- The average time to deal with a small claim from date issued to claim going to trial improved from 31.1 weeks in 2015 to 30.7 weeks in 2016.

The average time for disposal of a care or supervision application in family courts:

- The average time for the disposal of a care or supervision application in 2016 was 26.9 weeks, an improvement from 28.3 weeks in 2015. The percentage of care or supervision proceedings disposed of within the 26 week time limit (introduced in the Children and Families Act 2014) improved from 57% to 61%.
- There has been a decrease in the time taken for first disposals in private law cases in 2016, taking 13.6 weeks compared to 14.3 weeks in 2015.

Caseload and disposal volumes in tribunals:

- In the Employment Tribunal, the volume of single claims received decreased by 1% from 17,011 in 2015 to 16,870 in 2016. Social Security and Child Support appeal receipts increased by 32% from 152,057 in 2015 to 201,004 in 2016. Immigration and Asylum appeal receipts fell by 28% from 83,789 to 60,205.
- In Asylum and Immigration tribunals the rate of disposals from October to December 2016 increased by 23% from 14,500 to 17,800 compared with the same period in 2015.

Details of the most recent information available against these measures can be found at:

Criminal Court statistics quarterly

[www.gov.uk/government/collections/criminal-court-statistics](http://www.gov.uk/government/collections/criminal-court-statistics)

Civil Justice statistics quarterly

[www.gov.uk/government/collections/civil-justice-statistics-quarterly](http://www.gov.uk/government/collections/civil-justice-statistics-quarterly)

Family Court statistics quarterly

[www.gov.uk/government/collections/family-court-statistics-quarterly](http://www.gov.uk/government/collections/family-court-statistics-quarterly)

Tribunals and Gender Recognition statistics quarterly

[www.gov.uk/government/collections/tribunals-statistics](http://www.gov.uk/government/collections/tribunals-statistics)

We will continue to publish quarterly national statistics on the performance of the courts and tribunals system which will, over time, start to pick up the impact of HMCTS transformation.

## 2.3 Vision, objectives and priorities for 2017-18

We are committed to reforming and upgrading our systems to be the best justice system in the world, using technology and modern ways of working. By working with the judiciary and our delivery partners, we are building a transformed justice system and an organisation which is adaptable and agile. We are profoundly changing the way we deliver our services, the way we work, the way we interact with our customers and how our customers interact with us; with justice remaining at the heart of all we do. Within this context of change, transformation will impact every job in HMCTS. We are focussed on building performance today while securing improved performance for tomorrow.

To us, as in the wider MoJ, justice matters and delivering justice well needs all parts of the system to work together, sharing a common vision. It is our continuing aim in the future to:

- upgrade the best justice system in the world using technology and modern ways of working
- put the citizen at the centre of the justice system
- protect vulnerable victims, witnesses and children
- support the independent judiciary and their ability to attract the best and widest range of talent

By using the £1 billion investment, we have started to build a better customer experience and harness the power of technology, building a modern system for administering justice.

Our aim is to ensure that justice is no longer viewed as a slow process played out only in a physical courtroom. Instead, it is becoming a faster, easier-to-use service, developed according to customer needs, delivered in the way that's most appropriate and effective.

Looking forward we will deliver:

- customer-driven modern technology
- customer-driven modern settings
- customer-driven modern capabilities



## Upgrade the best justice system in the world using technology and modern ways of working

Our overarching programme to deliver change and transform HMCTS has been reprioritised and adapted, shifting from a four to a six year programme. The programme's strategy is broken down into four distinct phases, or interim states (IS), this has allowed us to take stock and develop the right things at the right time in the right way. To do that we have six programmes, working together to design, develop and deliver the building blocks of organisational, service, people, process and technological changes as set out below.

### Services

- Civil, Family & Tribunals Programme: Transforming civil, family and tribunal services through customer focussed, straightforward services supported by technology.
- Crime and Common Platform Programme: Ensure criminal cases progress through the whole system smoothly and without unnecessary delays by changing processes and introducing digital infrastructure to link criminal justice agencies' systems together and take work out of courtrooms that does not need to be there.
- Transforming Compliance and Enforcement Programme: Delivering a data-driven service that is tough and tailored, using different enforcement strategies to ensure orders of the court are enforced effectively.

### Enablers

- Property Programme: Create a court of the future designed to enable justice to be delivered efficiently and effectively. Close underused and dilapidated court buildings to allow us to reinvest in improving the remaining estate.
- Infrastructure & Operations Programme: Providing the backbone to new services through customer service centres, wi-fi and infrastructure.
- People and Culture Programme: Providing new organisational structures and jobs, moving people to the right roles and issuing new policies and tools to reward and build the service culture we want to have.

2017-18 takes us to the end of Interim State 1: setting the cultural and enabling foundations and proving capability, and into Interim State 2: scaling up and building capabilities to deliver services differently.



Each interim state (IS) is broken down as follows:

**IS 1:** Laying the foundations of our future operating model. We will be starting to work differently with changes to key services such as Divorce and Probate supporting online applications. We will be testing our capabilities to support changes moving forward.

**IS 2:** We will have established core changes to the way we deliver services offering choices that support customer needs with modern ways of working. We will have expanded our proven capability to deliver services differently.

**IS 3:** We will have put all planned technical changes in place, have started re-structuring of our estate to support the changes and will be moving towards continuous improvement.

**IS 4:** The last stage of the programme will see a consolidation of our reconfigured estate and a transformed operating model in place that meets our objective of upgrading the best justice system in the world using technology and modern ways of working.

## 2.4 Finance

We invested £60.9 million in our Change Programme to deliver a modernised and improved justice system. Activity has increased significantly in the Change Programme while we have continued to deliver our core business – we have carefully managed our expenditure to meet another challenging budget in 2016-17.

Fee income has increased to £741.9 million in 2016-17 as further fee changes were implemented and as case volumes in family and civil grew.

## 2.5 Sustainability

This is the fifth sustainability report HMCTS prepared in accordance with 2011-12 guidelines laid down by HM Treasury in Public Sector Annual Reports: Sustainability Reporting published at: [www.gov.uk/government/publications/government-financial-reporting-manual-2017-to-2018](http://www.gov.uk/government/publications/government-financial-reporting-manual-2017-to-2018)

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

Moj is committed to achieving these government targets, reducing its environmental impact and reducing costs. Priorities include reducing carbon emissions, water consumption and waste to landfill.

We have additionally witnessed a number of positive environmental benefits through the HMCTS Change Programme. Established to improve the efficiency of HMCTS and provide a simpler, faster and convenient route to justice, the Change Programme has consequentially reported a number of positive environmental benefits through new digital technology. The new Crown Court Digital Case System, for example, is enabling HMCTS to reduce its reliance on paper, and has saved the equivalent of over 30 million sheets of paper being printed during 2016-17.

### Scope exclusions and estimations

This report covers 386 buildings. Shared occupations are not accounted for due to the limitations of extrapolating reliable sustainability data from service charge data. During 2016-17, HMCTS was co-located in 59 other government department properties. As these are modest in size and, in the case of shared occupations, being reported by the major occupier, there is little benefit in extrapolating their sustainability data. This is consistent with the wider government and with last year's report. We do not consider that the exclusion of these areas has a material impact on sustainability reporting.

### Performance

Overall, HMCTS achieved a reduction in greenhouse gases of 27% since 2009-10. The climatic conditions experienced during 2016-17 were very similar to those during 2015-16 with both years experiencing exceptionally mild winters. There has been a 35% reduction in electricity consumption and a 18% decrease in gas consumption across the estate against the 2009-10 baseline.

HMCTS has continued to reduce its overall carbon emissions through its smarter working programme, investment in energy efficiency projects and digitalisation of court procedures. This has resulted in an £8 million saving since 2009-10.

Greenhouse gas (GHG) emissions		2009-10 (baseline)	2014-15	2015-16	2016-17
Non-financial indicators (tCO <sub>2</sub> e)	Scope 1 (direct) site-based emissions and owned transport	36,338	32,938	30,506	29,079
	Scope 2 (indirect) supplied energy (electricity and heat)	66,809	65,954	59,589	46,433
	Scope 3 (other indirect) business travel and transmission losses from supplied energy	5,268	8,558	8,373	3,793
	<b>Total gross GHG emissions</b>	<b>108,415</b>	<b>107,450</b>	<b>98,468</b>	<b>79,305</b>
Non-financial (kWh)	Electricity	159,811	132,163	118,111	103,341
	Gas	192,293	169,388	159,633	158,038
	Other energy sources	7,455	4,507	3,385	335
	<b>Total energy</b>	<b>359,559</b>	<b>306,058</b>	<b>281,129</b>	<b>261,714</b>
Financial indicators	Expenditure on energy (£m)	24	24	19	21
	Expenditure on official business travel (£m)	9	8	6	3
	<b>Total expenditure on energy and business travel</b>	<b>33</b>	<b>32</b>	<b>25</b>	<b>24</b>

HMCTS continues to reduce its estate, which has seen 64 court closures during 2016-17, with work transferred to other sites making them more efficient.

During 2016-17, the HMCTS estate produced a total of 12,540 tonnes of waste, a 59% reduction against the 2009-10 baseline figure. Of the total waste generated, 76% (9,466 tonnes) was diverted away from landfill disposal with 55% (6,948 tonnes) directed to reuse and recycling and 20% (2,506 tonnes) to energy-from-waste-incineration.

The waste reduction can be attributed to digitalisation, better data-collection methods and behavioural change.

Waste		2009-10 (baseline)	2014-15	2015-16	2016-17
Non-financial indicators (tonnes)	Non-hazardous waste	23,028	2,517	1,784	3,074
		7,430	5,913	4,770	6,948
		0	963	1,541	2,506
		0	5	8	12
	<b>Total waste</b>	<b>30,458</b>	<b>9,398</b>	<b>8,103</b>	<b>12,540</b>
<b>Financial indicators</b>	<b>Total disposal cost (£m)</b>	<b>1.6</b>	<b>2.6</b>	<b>2.5</b>	<b>2.1</b>

HMCTS is committed to reducing water usage across the estate and continued engagement with contractors will look to improve data-collection methods and to further reduce water usage.

Water		2009-10 (baseline)	2014-15	2015-16	2016-17
Non-financial Indicators	Total water consumption (cubic metres – m <sup>3</sup> )	722,887	734,613	507,895	651,404
Financial indicators	Total water supply costs (£m)	<b>2.3</b>	<b>2.6</b>	<b>2.4</b>	<b>2.6</b>

The new Crown Court Digital Case System is enabling HMCTS to reduce its reliance on paper, and has saved the equivalent of over 30 million sheets of paper being printed during 2016-17.

### Governance, responsibilities and internal assurance

Overall governance and assurance of sustainability is managed by the MoJ estates cluster sustainable operations team and performance is monitored by the MoJ estates cluster's property and asset management Board, and discussed at monthly senior management meetings.

MoJ continues to work on reducing its environmental impact across the estate, through a variety of carbon, water and waste-saving initiatives. The team will continue to provide sustainability reporting in the new HMCTS Property Directorate.

There are some limitations to the accuracy of our financial and non-financial sustainability data and we are committed to improving the quality of our internal controls, for example through internal audit and through continuous engagement with both internal and external stakeholders. The limitations refer to the fact that some utility companies provided quarterly estimated data and not actual readings.

### Sustainable operations policy

As of April 1st 2016, the responsibility for reporting and managing sustainability in the MoJ transferred to the justice shared estate cluster.

HMCTS data is gathered and verified by Greenstone, our external consultants employed to manage our data and final checks are undertaken by the British Research Establishment (BRE) on behalf of the Department for Environment, Food and Rural Affairs (Defra). The greenhouse gas conversion factors can be found in the government environmental impact reporting requirements for business at [www.gov.uk/government/publications/environmental-reporting-guidelines-including-mandatory-greenhouse-gas-emissions-reporting-guidance](http://www.gov.uk/government/publications/environmental-reporting-guidelines-including-mandatory-greenhouse-gas-emissions-reporting-guidance). We are unable to report data in GGC locations where landlords do not provide data

### Commercial policy

In line MoJ commercial policy to embrace best ethical, environmental, and health and safety practice in meeting business needs, procurement should always be conducted using a sustainable approach.

Defra provides details of Government Buying Standards (GBS) for a range of products. The minimum standards required by these GBS are mandated for use by MoJ and must be included as part of all tendering activity where they apply. Achievement of these standards is reported annually as part of Greening Government Commitments with 100% compliance reported against most.

### Social and environmental awareness

HMCTS has implemented the national MoJ biodiversity strategy and policy across its estate. As part of the social and community partnership arrangements we have been working closely with lead wildlife partners and facilities management providers to feed into local biodiversity action plans for both flora and fauna.

### Carbon Reduction Commitment

Carbon Reduction Commitment (CRC) is a mandated energy-reporting system for medium- to large-scale energy consumers. Participants must prepare detailed annual consumption reports and purchase sufficient allowances to cover their respective carbon impact. The MoJ sustainable operations team manages CRC on behalf of all its departments although accruals and budgets are managed at department level. The associated carbon allowances for 2016-17 are forecasted to be £1.5 million.

### Climate change adaptation

Sites located within flood risk areas are all registered with the Environment Agency for flood warnings in the event of any risk of flooding. Climate resilient designs are incorporated in retrofit projects and new builds. In addition robust business continuity plans are in place to manage occurrences of extreme weather events.

### Biodiversity action planning

We have worked closely with our facilities management provider and the MoJ biodiversity lead to enhance the wildflower meadows at Snaresbrook Crown Court, our designated site. Measures such as scalloped edges to the meadows and long rank grass areas have now been incorporated to encourage reptiles, amphibians and raptors. The wildflower meadows are being incorporated within the MoJ seedback project, so that local endemic progeny can be maintained throughout the site.

### Rural proofing

Following the national estates consultation in 2015, HMCTS carefully considered, and continues to consider, the impact of the proposals on court users in rural areas. The Defra rural proofing checklist was followed to make sure an appropriate assessment was made. In some rural areas, concerns regarding maintaining appropriate levels of access to the courts were addressed by the provision of alternative local access, for example through video-link facilities.

The MoJ estate retains its flexibility when it looks at its operational estate and through a robust and progressive planning system the MoJ sustainable development team has been quick to respond to such planning issues as, transport plans, ecological impact assessments, as well as local social and community plans. Working closely with estate project and technical design teams at early stages, particularly on new builds, has helped us deliver important policy issues with regards to the above and other more progressive issues such as carbon foot printing, rural diversification and ecosystem services on a landscape scale.

### Sustainable construction

All major refurbishments and new builds are required to be Building Research Establishment Environmental Assessment Method (BREEAM) assessed to a standard of 'very good' for refurbishments and 'excellent' for new builds. In addition, the department is committed to reducing construction waste to landfill and ensures that all major refurbishment and new-build projects have clauses requiring details on waste streams. There were no new builds or major refurbishments requiring BREEAM assessment during 2015-16 or 2016-17.

## 2.6 Complaints to the Parliamentary Ombudsman

The Parliamentary and Health Service Ombudsman (PHSO) investigates complaints from individuals who believe they have received poor service from government departments, other public organisations and the NHS in England. It has the power, in law, to investigate and make the final decision on complaints about public services for individuals. It can also recommend how mistakes can be put right – this can include explanations, apologies and recommendations for the service to learn and improve – and ask organisations to produce action plans to show how they will be implemented.

The PHSO investigated 18 complaints against HMCTS in 2016-17 which represents less than 0.1% of all complaints received. The data below shows that the volume of HMCTS complaints investigated by PHSO has fallen since 2014-15.

	2013-14	2014-15	2015-16	2016-17
Investigations completed by PHSO	39 100%	68 100%	48 100%	18 100%
Upheld complaints against HMCTS	11 28.2%	14 20.6%	5 10.4%	1 5.5%
Partly upheld complaints	8 20.5%	24 35.3%	15 31.2%	9 50%
Complaints not upheld against HMCTS	20 51.3%	30 44.1%	28 58.3%	8 44.5%

We continue to take recommendations from PHSO seriously and we are committed to continually improving how customer complaints are handled as we move to become a customer-driven organisation.

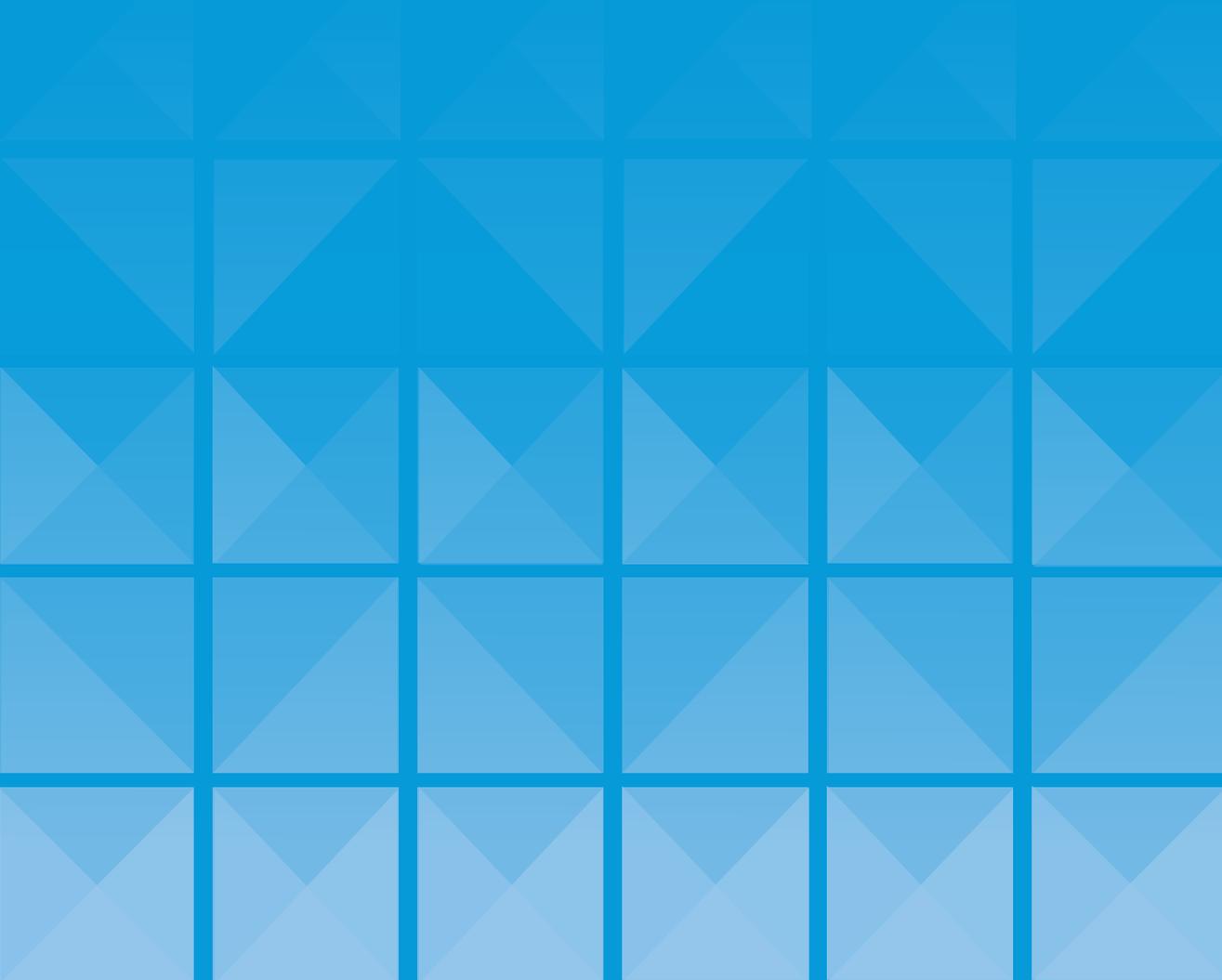
From October 2016 we rolled out an online complaint portal called Resolver that makes it easier for customers to contact us with a complaint or comment. 165 complaints have been received through Resolver since the rollout to the end March 2017.

In line with PHSO principles, HMCTS has implemented a system to share lessons learned to ensure continued improvement in customer service. Our Customer Directorate holds regular lessons learned meetings to improve complaint handling and feedback is provided to relevant areas of the business. We also participate in MoJ and cross-government complaints forums and are working with the London School of Economics to develop a robust, sustainable system for categorising complaints which will help identify complaint hotspots and blind spots. This insight will be used to further improve the services we provide.

**Susan Acland-Hood**  
Chief Executive and Accounting Officer

11 July 2017

# Section 3: Our controls, governance and accountability report





## 3.1 How we were structured in 2016-17: our staff and senior management

HMCTS is a geographically dispersed organisation with an annual expenditure of around £1.9 billion and income of £804.9 million in 2016-17. We have three broadly equal areas of expenditure: HMCTS staff, salaried and fee-paid judiciary and estates.

We employ 15,749 full-time equivalent (FTE) staff and we work with approximately 1,800 full-time judiciary, 7,200 fee-paid judiciary and around 16,380 magistrates out of 386 buildings.

The number of staff permanently employed by HMCTS has reduced by 940 FTE from 2015-16. These figures do not include the judiciary. Information on judiciary costs and numbers can be found on page 96.

As part of our workforce, we have a number of capable agency and contract staff, equivalent to 1,480 FTEs, fulfilling both frontline roles and specialist corporate roles to support the Change Portfolio. As we continue on our journey of transforming HMCTS, we have deliberately recruited staff to roles on a temporary basis to minimise the risk of redundancy to our permanent workforce, and to minimise long-term redundancy costs incurred by employing staff now who we know we cannot offer a long-term role to.

### Our People and Organisation Strategy

We have a strategy to create the right capability, capacity and culture so that we can deliver well today while also changing for the future.

## OUR CHALLENGE

### HMCTS PEOPLE AND ORGANISATION STRATEGY 2015-2020

To deliver the leaders and leadership HMCTS needs now and in the future...

#### Building performance for today

1

Get the right people in  
Ensure we select the best people and maintain a high benchmark

2

Build and reward performance  
Ensure the skills/capability and focus to deliver in current role

3

Grow a strong talent pipeline  
Make sure we have the right people in the right numbers at the right time

4

Develop credible successors  
Test succession plans and action development needs

Develop an adaptable and agile organisation that delivers

Make sure we have the right structure and climate, and the capability to manage ('what') and transition ('how') well

A key element of the People and Organisation Strategy is the People Change Strategy which focuses on how we will ensure we transform HMCTS into an organisation that has the right structure, with a smaller workforce who are highly skilled, engaged by their work and appropriately rewarded. It also sets out the principles by which we will support our staff as we transform and they transition to work in new ways in different locations and different roles.

To support the delivery of the People Change Strategy, a People and Culture Transformation Programme has been established. The Programme supports our leaders and our staff in transforming the way the organisation operates at local, regional, national and corporate levels. This is achieved through an integrated approach to designing future organisational structures and jobs; building technical skills and knowledge, growing leadership capability, supporting the transition of our people into new roles, sometimes in different locations, and crafting a new employee proposition which delivers recognition and growth for our people and reinforces our cultural aspirations. In doing so, the Programme will help the organisation achieve its vision of delivering better, more efficient, accessible and consistent justice services that meet the needs and expectations of customers and business users.

### 3.1.1. Our staff

Our staff are fundamental to our success. The nature and scale of modernisation we have embarked upon is changing the way we operate and places new demands on our people. Our leadership challenge is to maintain service to our customers while we develop, deliver and embed a radically transformed service and, at the same time, support people to cope with the ambiguity and uncertainty that the change brings.

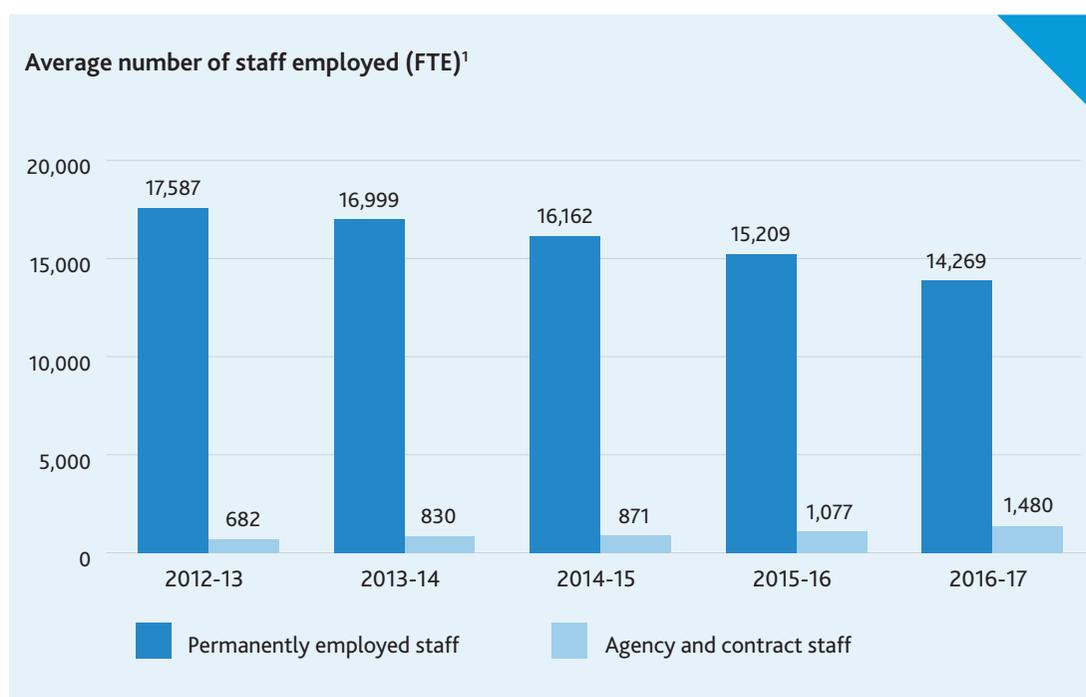
We have developed principles to guide how we engage with our people; we will involve our people in change to provide them with the opportunity to influence, and have a stake in, the future as well as to make the right decisions about their careers and we will treat people as adults through an honest, transparent and timely dialogue about change.

Throughout 2016, our leadership cadre went through a development scheme with an initial emphasis on building capability in authentic, self-aware and emotionally intelligent leadership behaviour. The first stage involved the most influential leaders across HMCTS where an emotional intelligence profiling exercise was conducted on 200 members of staff to raise self-awareness and shape personal development plans with coaching support. This development scheme is now targeted at all managers within HMCTS.

Following the development of our leadership cadre we are beginning to create and pilot policies and approaches that reflect the principles regarding how we engage with our people. We have also recognised an emerging talent and capability gap in our pipeline to senior leadership roles.

### Average number of staff employed

The average number of FTE staff paid during the year was 15,749 compared to 16,286 in 2015-16, comprising of the following:



### Staff costs comprise:<sup>1</sup>

	2016-17 £000	2015-16 £000
Wages and salaries	353,557	369,472
Social security	30,137	23,042
Employer's pension contributions	69,326	72,130
Agency staff costs	50,598	34,878
Voluntary early departures	683	1,699
	<b>504,301</b>	<b>501,221</b>
Add: inward secondments	276	561
	<b>504,577</b>	<b>501,782</b>
Less: recoveries in respect of outward secondments	(614)	(490)
<b>Total staff costs</b>	<b>503,963</b>	<b>501,292</b>

<sup>1</sup> This section is subject to audit

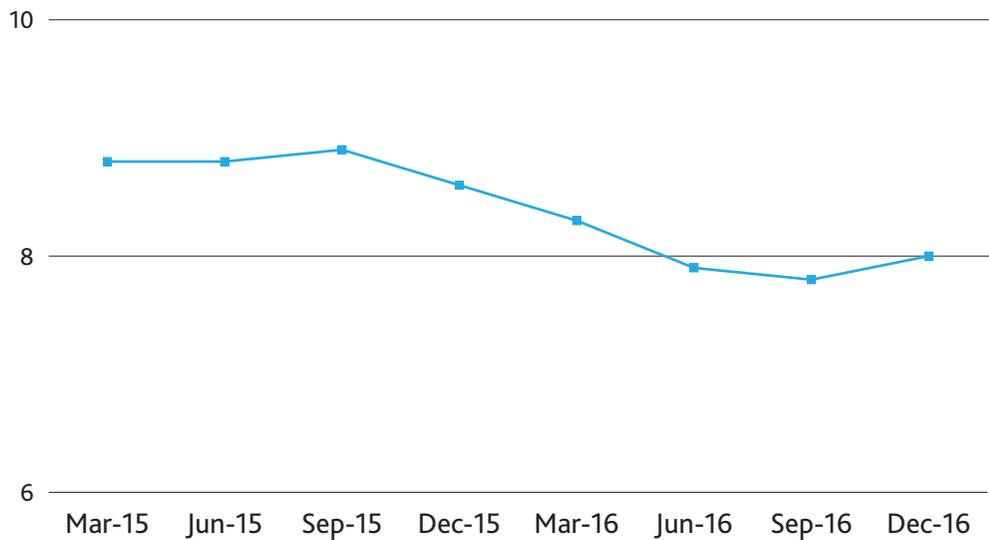
### Sickness absence

The number of average working days lost (AWDL) due to sickness has reduced this year when compared to the previous two years.

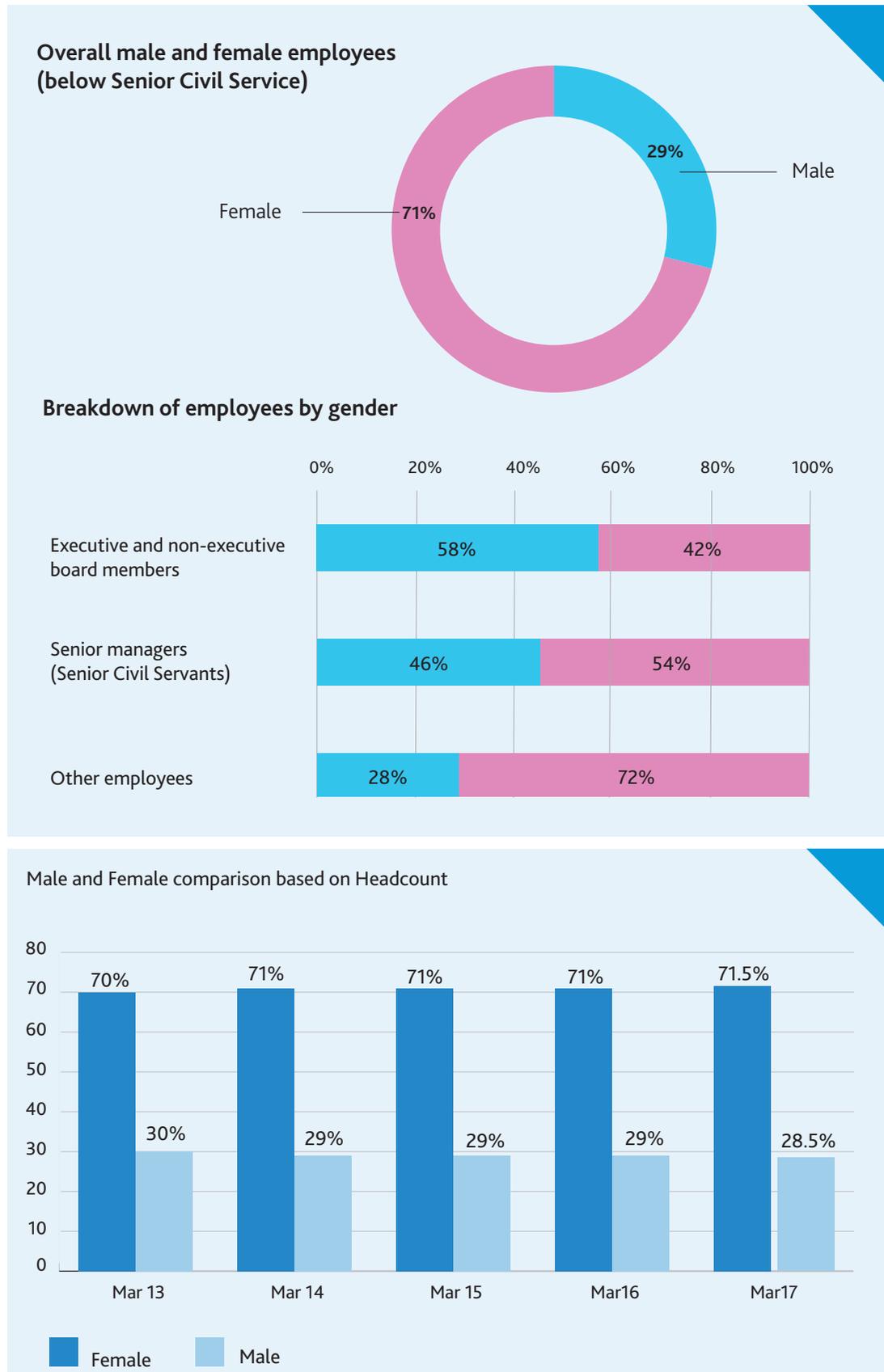
For the rolling 12 months to the end of December 2016, the AWDL per person (including leavers – those that have left HMCTS) was 8.0 days, an improvement from 8.3 days at the end of 2015-16. From April to December 2016, AWDL decreased.

We have created an Inclusion and Wellbeing Strategy to replace the separate agendas of health, wellbeing, attendance, diversity, inclusion, mobility and equality which focuses on how we will work to improve the capability of all our people, to manage and lead our change journey.

Average working days lost due to sickness absence (with leavers)

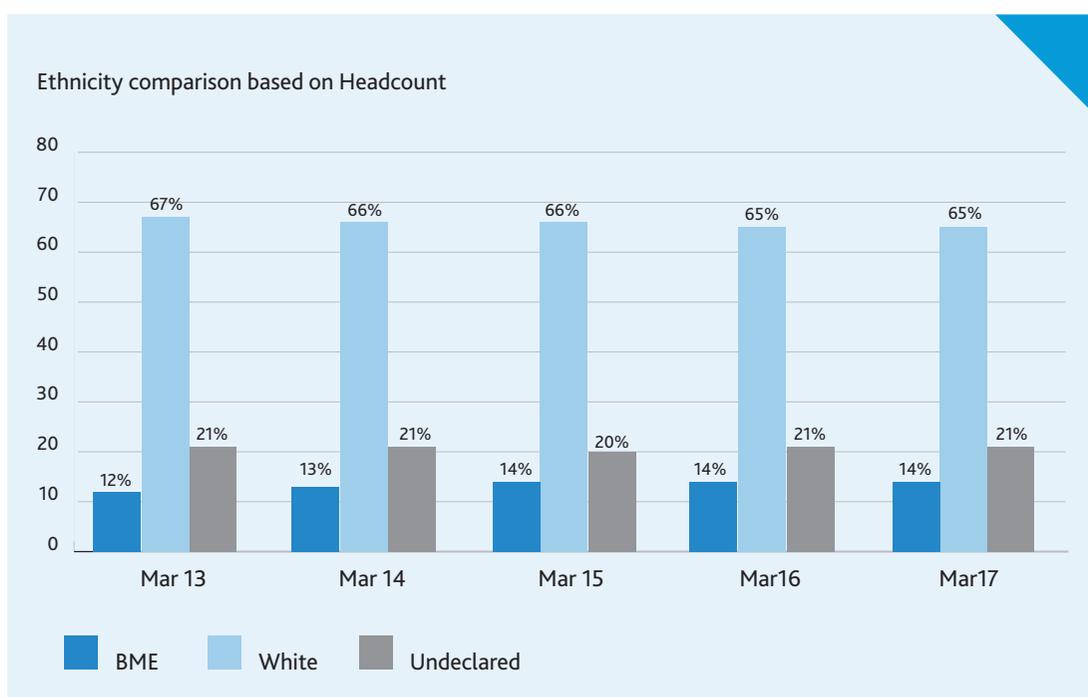


Breakdown of employees by gender and ethnicity



At 31 March 2017, the breakdown of employees by gender was as follows:

	Male	Female	Total
Executive and non-executive Board members	7 (58%)	5 (42%)	12
Senior managers (Senior Civil Service)	24 (46%)	28 (54%)	52
Other employees	4,461 (28%)	11,263 (72%)	15,724
<b>Total</b>	<b>4,492 (29%)</b>	<b>11,296 (71%)</b>	<b>15,788</b>



I am delighted to be part of the Social Mobility agenda within MoJ and to see that our HMCTS number of volunteers is growing. The feedback from the students, teachers and the volunteers themselves has been universally positive. This is a great example of how we can proactively engage with the community and, at the same time, raise the profile of how courts and tribunals work.

**Faran Johnson, HR Director, HMCTS**

### Equality and diversity

We in HMCTS believe it is vital that we consider the diverse needs of our staff and all those who use our services. We promote a culture where staff and service users are treated with fairness and respect. We are sensitive to the needs of those who are vulnerable or socially excluded.



We are positively committed to a policy of equal opportunities for all staff with disabilities and aim to create an environment which enables them to participate fully in working life. We have a reasonable adjustments policy which provides advice, support and guidance on how to consider and make reasonable adjustments so staff with disabilities can carry out their duties and people can access our services.



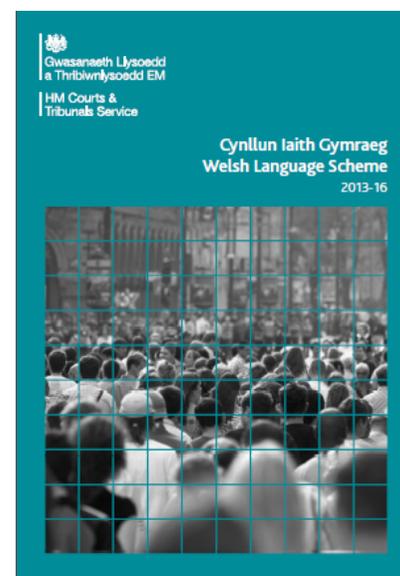
At the end of January 2017, MoJ launched the Race Ambassadors' Scheme, bringing together multi-ethnic individuals from across the department and its agencies, including HMCTS, with a diverse regional spread and an even more diverse range of skills and experience. These Race Ambassadors – the first cohort of its kind across government – are the front-line

representatives of Project Race. Their key objective is to shift the culture of MoJ towards making it a race confident organisation so that black and minority ethnic staff do not experience prejudice and are proud to work for the department.

HMCTS has adopted the principle that in the conduct of public business and the administration of justice in Wales, we will treat the Welsh and English languages on a basis of equality. The Welsh Language Unit provided the Welsh translation for the government's European Union Referendum brochure, recognising the excellent service they provide. This year we carried out user research into the needs, goals and motivations of Welsh speakers through a series of focus groups in North, West and South Wales, accompanied by group interviews with Welsh-speaking magistrates in North and West Wales. All the focus groups were conducted exclusively in Welsh, with a Welsh speaker facilitating the groups and interviews. The results identified further lines of enquiry and these will be explored in future interviews and lab-based testing sessions to investigate how individual Welsh speakers use the language.

The MoJ has included a Welsh language impact section within their consultation template. This ensures that the Welsh language is considered in conjunction with other equality requirements as stated in the Equality Act 2010. Welsh language in Reform guidance was published in order to ensure Welsh language requirements are considered within the various strands of the programme to reform HMCTS.

HMCTS is committed to supporting the delivery of the MoJ Schools Programme, which forms an integral part of the departmental Social Mobility Strategy. The purpose of the Schools Programme is to engage pupils from educationally disadvantaged backgrounds. The HMCTS-led sessions have also allowed the school children to actively participate in an interactive session of You Be The Judge. The presentations have been delivered to a wide and diverse network of schools across England and Wales. During 2016-17, the Schools Programme has delivered events to 91 schools.



### Employee engagement

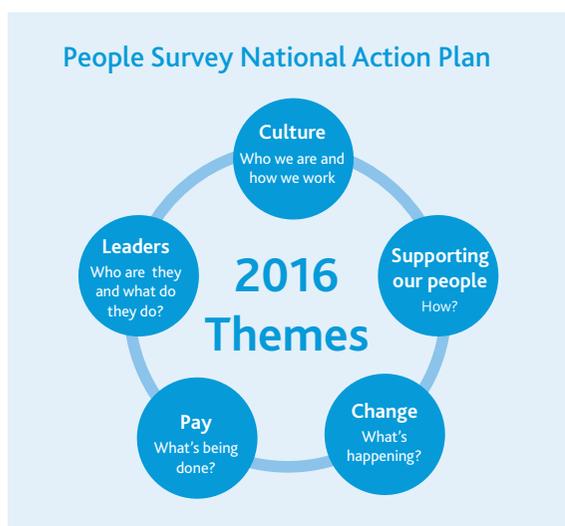
The annual People Survey was launched in October 2016, providing an opportunity for staff to have their say on a variety of topics which impact them. 10,911 HMCTS employees took part which represented a 63% response rate (3% points down compared to the previous year and 2% points above the Civil Service benchmark). The engagement index was 51%, compared to 59% for the Civil Service overall. This is the same as the result achieved last year and should be regarded as a positive result in light of the significant change (and associated uncertainty for staff) which HMCTS is going through.

Every HMCTS region and directorate has a lead employee engagement champion whose role is to support engagement and drive activity locally. Results into action workshops were held and local plans produced for implementation during 2017, helping to inform action at a national level.

The HMCTS Senior Management Team (SMT) agreed the National Action Plan developed by the business.

The People Survey results have provided five priority areas to focus improvements on in the National Action Plan, and each is sponsored by a member of SMT:

- **Discrimination, harassment and bullying:** including introducing new guidance, mandatory training for all staff and, creating a network of named local anti-bullying and equality/diversity champions
- **Learning and development:** including providing a more simple set of bespoke learning options, an increased focus on digital skills needs to support the interim state changes and leadership capability which will ensure our leaders build resilience to effectively manage change and its impact over a sustained period
- **Resources and workload:** including ensuring resource meets demand throughout the reform journey, reviewing the current recruitment process and improving our technology to eradicate waste time
- **Pay and benefits:** including the continued promotion of reward and recognition vouchers, keeping staff informed of pay negotiations regularly and promoting the non-monetary benefits to staff
- **Leadership and managing change:** including demonstrating the importance of employee engagement to the HMCTS and expectations of our leaders in terms of employee engagement





I am encouraged that our Engagement Index has remained static despite the heavy change we are beginning to experience. However we can always do more and I am confident that the improvements we make as part of the National Action Plan, together with the wider work being completed by the People and Culture Transformation Programme, will help us continue to drive forward our ambition of increasing engagement levels across all of our services.

Guy Tompkins, HMCTS Employee Engagement Champion



Employee engagement pulse surveys have been introduced as a direct result of staff feedback. These are in addition to the staff engagement survey every October. It is also a key way for our senior management team to assess how they are leading staff through change, and checking that we have acted on concerns raised in the annual survey. A pulse survey was held in May 2016 and at least one pulse survey is planned during 2017 followed by qualitative local focus groups.

We recognise that we have a diverse and geographically dispersed organisation. A number of local initiatives were developed and taken forward by staff following the People Survey that took place in October 2015. Some examples of activities undertaken in 2016 to help further improve staff engagement are below.

**South West region** decided to focus on improving their internal communications to help raise awareness and increase understanding of key objectives for 2016-17. They filmed and edited a video message, at no cost, featuring local staff sharing examples of work be carried out across the region and highlighted work planned for each of the three HMCTS strategic priorities. The video was played at a number of roadshows and received positive feedback from staff in helping them understand their business priorities for the year ahead.

**Wales** introduced initiatives focusing on leadership development and communications. A four-day programme for Band D team leaders and Tier 3 legal advisors was designed and delivered. The programme aimed to strengthen change management skills, as well as development areas such as coaching, holding difficult conversations, staff engagement and feedback skills.

A series of engagement visits took place across Wales during summer 2016 and, following feedback, the recognition and reward process was simplified and action taken to improve communications. Yammer is now used extensively to generate enthusiasm around key engagement events such as Learning and Work Week, and Health and Wellbeing at Work Week.

**Scotland** introduced a variety of initiatives to help improve levels of engagement. For example, staff were given the opportunity to attend a variety of complimentary therapy sessions arranged in conjunction with trainees from the City of Glasgow College. A total of 474 treatments were provided. A number of fundraisers were held, including dress down days and bake sales, raising over £1,600 for 12 different charities, each nominated by a member of staff. Staff participated in events held to celebrate Equality and Diversity Week, Health and Wellbeing Week, and took part in activities for Learning at Work Week.

### Our commitment to the Operational Delivery Profession

The Operational Delivery Profession (ODP) represents civil servants who work in roles that deliver essential services directly to members of the public. It's the largest profession in government with over 288,000 staff, including HMCTS. ODP helps staff deliver the best possible services to customers by recognising and enhancing their skills. The profession covers face-to-face roles, contact centre roles (both formal and informal), processing roles and managers.

During 2016-17, a new curriculum has been developed to build cross-government capability to meet the current and future needs of Operational Delivery Professionals. HMCTS has worked with Civil Service Learning to improve our existing capability offer and we have established a capability hub to focus on the immediate needs of our staff and have rolled out two phases, the second of which will be completed in spring 2017.

### Organisational wide learning and development

In Section 2.2 we highlighted learning and development activity that took place this year. In addition we have had a number of organisation wide events.

Learning at Work Week in 2016 was highly successful and saw the highest level of engagement since the creation of HMCTS in 2011. HMCTS staff across England, Wales and Scotland participated in and facilitated a variety of activities across a range of subject matters including conduct and discipline training, understanding the self-assessment tool, mental health awareness, work shadowing activities, epilepsy awareness, time management, health and wellbeing, as well as e-learning exercises for software training on Word, Excel and PowerPoint.

**104** members of staff participated in the Band E and F Development Programmes. These are designed to develop them as first time managers.

As part of the ongoing aim to further develop those within HMCTS, over **100** staff have achieved professional qualifications.

A key area of development for staff has been the introduction of new software and technology, with training provided to over 15,500 staff during the roll out of the single operating platform, as well as preparing training materials for future implementations.

### Other staff disclosures

The following sections are included to satisfy parliamentary reporting and accountability requirements and are subject to audit.

**Number of Senior Civil Service staff**

Our executive directors are all Senior Civil Servants (SCS). As at 31 March 2017, there were 56 SCS in HMCTS (compared to 45 at 31 March 2016). The table below is not subject to audit.

Salary band (£)	Number of senior civil service staff	
	2016-17	2015-16
60,000 – 70,000	23	17
70,000 – 80,000	5	10
80,000 – 90,000	7	9
90,000 – 100,000	10	2
100,000 – 110,000	6	3
110,000 – 120,000	–	–
120,000 – 130,000	3	2
130,000 – 140,000	–	–
140,000 – 150,000	1	–
150,000 – 160,000	–	–
160,000 – 170,000	1	1
170,000 – 180,000	–	1
180,000 – 190,000	–	–
<b>Total number of SCS staff</b>	<b>56</b>	<b>45</b>

## Reporting of Civil Service and other compensation schemes – exit packages

A summary of the exits is shown below:

Exit package cost	2016-17			2015-16		
	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
< £10,000	–	4	4	–	2	2
£10,000 - £25,000	–	16	16	–	12	12
£25,001 - £50,000	–	11	11	–	10	10
£50,001 - £100,000	–	3	3	–	13	13
£100,001 - £150,000	–	–	–	–	3	3
£150,001 - £200,000	–	–	–	–	–	–
£200,001 - £250,000	–	–	–	–	–	–
£250,001 - £300,000	–	–	–	–	–	–
<b>Total number of exit packages by type</b>	–	<b>34</b>	<b>34</b>	–	<b>40</b>	<b>40</b>
<b>Total cost of exit packages by type (£000)</b>	–	<b>£965</b>	<b>£965</b>	–	<b>£1,699</b>	<b>£1,699</b>

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year the exit package is confirmed. Where the department has agreed early retirements, the additional costs are met by the department and not by the Principal Civil Service Pension Scheme. Ill health retirement costs are met by the pension scheme and are not included in the table above.

In 2015-16, MoJ accounted for a voluntary early departure scheme relating to the agency as the MoJ was liable to pay for the redundancy and other departure costs of this scheme on behalf of HMCTS. The following table sets out the number of exit packages relating to this scheme that were disclosed within the Civil Service and other compensation schemes – exit package table on page 59 of the MoJ Annual Report and Accounts 2015-16. These employees left HMCTS in 2016-17.

Exit package cost	2015-16		
	Number of compulsory redundancies	Number of other departures	Total number of exit packages
< £10,000	–	–	–
£10,000 - £25,000	–	6	6
£25,001 - £50,000	–	15	15
£50,001 - £100,000	–	19	19
£100,001 - £150,000	–	–	–
£150,001 - £200,000	–	–	–
£200,001 - £250,000	–	–	–
£250,001 - £300,000	–	–	–
<b>Total number of exit packages by type</b>	–	<b>40</b>	<b>40</b>
<b>Total cost of exit packages by type (£000)</b>	–	<b>£1,993</b>	<b>£1,993</b>

#### Review of tax arrangements of public sector appointees

During the current period, HMCTS has reviewed the tax arrangements of all its off-payroll appointments. All contractors within the scope of this exercise have been required to provide evidence of tax compliance.

Further details of off-payroll engagements can be found in the MoJ consolidated accounts.

#### Pension scheme

The Principal Civil Service Pension Scheme (PCSPS) and the Civil Servant and Other Pension Scheme (CSOPS) – known as 'Alpha' are unfunded multi-employer defined benefit schemes but HMCTS is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the PCSPS as at 31 March 2012. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (<http://www.civilservicepensionscheme.org.uk/about-us/resource-accounts/>).

For 2016-17, employers' contributions of £68.9 million were payable to the PCSPS (2015-16 £71.9 million) at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2016-17 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

#### Consultancy costs

Expenditure on consultancy in 2016-17 was £9.8 million (2015-16: £8.8 million).

### 3.1.2 How we work: the partnership of the Lord Chancellor, the Lord Chief Justice and the Senior President of Tribunals – The Framework Document

HMCTS operates in a unique environment. We provide the system of support, including infrastructure and resources, for the administration of the business of the courts in England and Wales and those tribunals throughout the United Kingdom, for which the Lord Chancellor is responsible. We provide the support necessary to enable the judiciary, tribunal members and magistracy to exercise their judicial functions independently.

The Framework Document reflects an agreement reached by the Lord Chancellor and the Lord Chief Justice and the Senior President of Tribunals on a partnership between them in relation to the effective governance, financing and operation of HMCTS.

The Lord Chancellor and the Lord Chief Justice and the Senior President of Tribunals will not intervene (whether directly or indirectly) in the day-to-day operations of HMCTS and have placed the responsibility for overseeing the leadership and direction of it in the hands of its board. The Chief Executive is responsible for the day-to-day operations and administration of the agency.

The agreed objectives of HMCTS as detailed in the Framework Document are as follows:

- provide the supporting administration for a fair, efficient and accessible courts and tribunals system
- support an independent judiciary in the administration of justice
- drive continuous improvement of performance and efficiency across all aspects of the administration of the courts and tribunals
- collaborate effectively with other justice organisations and agencies, including the legal professions, to improve access to justice
- work with government departments and agencies, as appropriate, to improve the quality and timeliness of their decision making in order to reduce the number of cases coming before tribunals and courts

The HMCTS Board is responsible for overseeing the leadership and direction of HMCTS in delivering the aim and objectives set by the Lord Chancellor, the Lord Chief Justice and the Senior President of Tribunals.

### 3.1.3 Our Board and Senior Management Team



As at 31 March 2017, there were 12 members of the HMCTS Board, comprising non-executive, executive and judicial members.

#### Non-executive members



**Robert Ayling** is the independent Chairman of HMCTS. He was Chairman of Welsh Water until Summer 2016 and was previously the Chairman of Dyson Ltd and the Chairman of the International Dispute Resolution Centre Ltd. Robert is a solicitor by profession, with 20 years practice in the City as a senior government legal advisor at the Department of Trade and Industry. He was Managing Director and Chief Executive of British Airways PLC from 1993 to 2000.



**Victoria Cochrane**, Chair of HMCTS Audit and Risk Assurance Committee. She is a non-executive director of Perpetual Income and Growth Investment Trust PLC and Euroclear Bank SA/NV and chairs the Audit Committees of both companies. Victoria was previously a non-executive director of Bowater Industries. She qualified as a solicitor and spent more than 20 years as a litigator, first in private practice and then as General Counsel to Ernst & Young. She later took on responsibility for Quality, Compliance and Risk at Ernst & Young in 2003 and spent the last five years of her time there as a member of the Global Executive Board heading up Risk worldwide.



**Rachel Osborne** is the Chief Financial Officer for Domino Pizza Group PLC and is Director at DP Capital Ltd, DP Group Developments Ltd, DP Realty Ltd and DPG Holdings Ltd. She was formerly the Finance Director, Group Enterprise at Vodafone Group PLC and before that, the Finance and Strategy Director at John Lewis Partnership. She previously held a number of senior strategic and finance roles at Kingfisher PLC and PepsiCo. Rachel has a wealth of expertise in finance control, risk management, developing performance and commercial strategies, as well as in delivering major IT transformational programmes.



**Ian Playford** is the interim Chief Executive of the Cabinet Office Shadow Government Property Unit, and is the Director of Onboard Executive Limited and a Board advisor to Kingsbridge Estates. Previously he was the Group Property Director of Kingfisher PLC, overseeing the strategy, management and investment of Group capital across Europe, Russia and China. Ian has held senior executive roles at Parkridge Holdings and Aviva and has worked across different sectors and disciplines in real estate business throughout Europe and Asia.

## Other members



**Liz Doherty** was appointed by MoJ as the department's representative on the HMCTS Board and is also a non-executive member of the MoJ Departmental Board. She recently held non-executive director (NED) posts at Nokia and Delhaize and is currently a NED at Corbion NV, Dunelm PLC, and Novartis AG as well as an advisor on the boards of two subsidiary companies of Agolimen. Liz chairs the Audit Committees of all the companies with the exception of Corbion, of which she is a member. Liz is a senior finance executive with 30 years' broad-based, international finance experience in a number of large multi-national organisations across a range of industries. She spent over 20 years in a range of director level financial roles at Unilever.

## Judicial members



**Sir Ernest Ryder** was appointed the Senior President of Tribunals in September 2015. He was called to the Bar in 1981 and appointed Queen's Counsel in 1997. He became a Recorder in 2000. Sir Ernest was appointed a High Court judge, and assigned to the Family Division in 2004. He was the judge in charge of the family modernisation review in 2012. He was appointed as a Lord Justice of Appeal in 2013.



**Lord Justice Adrian Fulford** was appointed Senior Presiding Judge for England and Wales on 1 January 2016. He was made a Recorder of the Crown Court in 1995 (reappointed in 2001). Sir Adrian became a High Court judge on 21 November 2002 and was appointed to the Queen's Bench Division. He became a judge of the International Criminal Court in 2003, but continued his work at the High Court, presiding over a number of high-profile cases. He was elected to serve as one of the 18 judges of the International Criminal Court in 2003 for a term of nine years, and is assigned to the Trial Division. He was appointed as a Lord Justice of Appeal on 10 May 2013. Sir Adrian Fulford was appointed as the first Investigatory Powers Commissioner for a three year term from April 2017. He will remain a judge of the Court of Appeal.



**District Judge Michael Walker**, CBE, was appointed a district judge in April 1994 and retired in September 2016. He was a member of the Audit and Risk Assurance Committee and from September 2007 he was seconded to the Senior Presiding Judge's Office. Before his appointment to the bench, he was a partner in a South London firm of legal aid solicitors. Between 2000 and 2011 he was Honorary Secretary of the Association of Her Majesty's District Judges. Michael was a member of the Judges' Council from July 2002.



**District Judge Tim Jenkins** was appointed as a member of the HMCTS Board and the Audit and Risk Assurance Committee in October 2016. He sits at the West London Family Court and the County Court in Brentford. Tim became a solicitor in 1980 and was appointed as a district judge in 1998, having been a deputy district judge since 1994. He was the Honorary Secretary of the Association of Her Majesty's District Judges from 2011 until March 2016 and is a member of the Judges' Council. He has been a member of a number of standing committees. In 2016 he was invited to be an England and Wales representative on the European Network of Councils for the Judiciary.

## Executive members

The Executive members are all members of the Senior Management Team

[Natalie Ceeney](#), Chief Executive until 31 May 2016

[Susan Acland-Hood](#), Chief Executive from 21 November 2017

[Kevin Sadler](#), Deputy Chief Executive and Director of Courts and Tribunals Development (Interim Chief Executive from June to November 2016)

[Lynne Hamilton](#), Director of Finance, Governance and Performance

[Guy Tompkins](#), Director of Operations

## Our Senior Management Team



There are eight members of the Senior Management Team; four of whom are also executive members of the HMCTS Board.



[Susan Acland-Hood](#) joined HMCTS as Chief Executive in November 2016. She is responsible for the day-to-day operations and administration of the agency and for the leadership of its staff. As Chief Executive, she works under the general direction of the HMCTS Board and is the Accounting Officer for the organisation.

Susan was previously the Director of Enterprise and Growth at HM Treasury where she was responsible for policies on productivity, growth, business, infrastructure, exports, competition and markets, and for energy and transport spending. Prior to that, she spent two years as Director of Education Funding at the Department for Education, overseeing the comprehensive reform of the capital programme. Susan has also worked extensively

on home affairs and justice policy, both at No.10 and in the Home Office. She has also had senior roles in the London Borough of Tower Hamlets, and in the Social Exclusion Unit.



[Natalie Ceeney](#), CBE, was Chief Executive from January 2015 to end of May 2016. Her career spanned the public and private sectors in both operational and strategic leadership roles. Natalie was made a Commander of the Order of the British Empire in the New Year 2010 Honours List.



[Kevin Sadler](#) was appointed as Deputy Chief Executive in November 2016 and continues in his role as Director of Courts and Tribunals Development. Kevin is responsible for the national business strategy, operational policy and modernisation of courts and tribunals, and was announced as Interim Chief Executive for HMCTS from end May to November 2016.

Kevin has had a varied early career in operational, policy and private office posts in the Department of Social Security, Cabinet Office and Department of Work and Pensions leading on to roles in the Department for Constitutional Affairs where he oversaw change and restructuring across the department and ran the project to create the Ministry of Justice. Kevin was previously Chief Executive of the Tribunals Service.



**Lynne Hamilton** is the Director of Finance, Governance and Performance and is responsible for ensuring HMCTS has strong financial management, governance and controls, as well as chairing the Finance and Performance Committee and Change and Investment Committee. Lynne has previously been the Director of Finance and Commercial at the Welsh Government. She has experience in senior policy, delivery and finance roles in which she managed large teams, large complex budgets and big performance improvement programmes. Lynne is leaving her role on 26 May 2017.



**Guy Tompkins** is the Director of Operations and his primary responsibility is leading over 15,500 people in the delivery of all business as usual activity, including ensuring the successful delivery of reform change into the business.

Guy started his career in the Civil Service as a clerical officer in the Department of Employment. He has since held a wide variety of posts including operational delivery posts for Job Centre Plus, the Tribunals Service and HMCTS.



**Richard Goodman** is the Change Director. He is responsible for delivery of the HMCTS Change Programme to time, quality and cost.

Richard started his career in tourism. On joining the Civil Service he worked in policy. He later took up operational case working roles and led work on strategy and workforce reform. In 2011 Richard joined the UK Border Agency as director of international operations, leading the agency's overseas security work and visa operations. After a spell in the Middle East he left the Civil Service to become policy director at the Financial Ombudsman Service.



**Kevin Gallagher** is the Digital Change Director and is responsible for IT and digital strategy, which includes designing the infrastructure to support reforms to the service.

Kevin was previously the Chief Information Officer at Channel 4, where he brought digital to the forefront of the organisation's business model. He has worked in private and public sector organisations including the Legal Aid Board.



**Faran Johnson** is the Human Resources Director and is responsible the HMCTS People and Organisation Strategy to build performance for today and secure performance for tomorrow. She is also responsible for ensuring we have the right workforce strategy to manage the change that will be delivered through the transformation of HMCTS.

Faran has over 20 years of global HR experience leading organisational transformation to drive the right leadership and behaviours to enable change. She has worked in the finance, retail, services, technology and media sectors including for Clear Channel, Reed Elsevier, Axa and First Data. She has managed large-scale change while focusing on engaging employees and improving the working environment.



**Sidonie Kingsmill** is the Customer Director. She is responsible for helping HMCTS become a customer-driven organisation.

Sidonie has a wealth of experience using customer insight and user-led service design to change organisations and make services better for users. Prior to joining HMCTS she was Group Brands Director at Tesco, and has also worked for Procter & Gamble and Metro International Newspapers.

### Other attendees at Senior Management Team (SMT) meetings

The Senior MoJ Commercial Specialist for HMCTS has a standing invite to attend the SMT meetings.

## 3.2 Remuneration report

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

### Board members remuneration report

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

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

HMCTS does not have a remuneration committee. The key functions of this committee are dealt with through the MoJ Workforce Committee.

The following sections provide details of the remuneration and pension interests of HMCTS Board members who served during 2016-17.

**Table 1 – Remuneration payments to HMCTS Board members during the period 1 April 2016 to 31 March 2017**

	2016-17					2015-16				
	Total amount of salary and fees	Benefits in kind (to nearest £100)	Bonuses paid	Pension related benefits (to nearest £1000)	Total	Total amount of salary and fees	Benefits in kind (to nearest £100)	Bonuses paid	Pension related benefits (to nearest £1000)	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Robert Ayling, Independent Chairman	15 – 20	Nil	Nil	Nil	15 -20	15 – 20	Nil	Nil	Nil	15 -20
Natalie Ceeneey, Chief Executive (until 31 May 2016) <sup>5</sup>	65-70 (175-180 FYE) <sup>2</sup>	Nil	Nil	40	105-110	175-180	Nil	Nil	69	245-250
Kevin Sadler, Director, Courts and Tribunals Development (until 31 May 2016)	105-110	Nil	10-15	88	205-210	100 - 105	Nil	10-15	28	140-145
Interim Chief Executive (from 1 June 2016 to 20 Nov 2016)										
Susan Acland-Hood, Chief Executive (from 21 Nov 2016)	45-50 (120-125 FYE) <sup>2</sup>	Nil	Nil	76	120-125	n/a	n/a	n/a	n/a	n/a

	2016-17					2015-16				
	Total amount of salary and fees	Benefits in kind (to nearest £100)	Bonuses paid	Pension related benefits (to nearest £1000)	Total	Total amount of salary and fees	Benefits in kind (to nearest £100)	Bonuses paid	Pension related benefits (to nearest £1000)	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Lynne Hamilton, Director, Finance, Governance and Performance <sup>4</sup>	105-110	26.8	10-15	42	185-190	100-105 (105-110 FYE) <sup>2</sup>	34.9	Nil	85	220-225
Guy Tompkins, Operations Director	95-100	13.4	0-5	60	170-175	90 - 95	9.6	Nil	77	175-180
Paul Harris, Interim Director, Courts and Tribunals Development (from 22 June 2016 to 20 Nov 2016)	35-40 (85-90 FYE) <sup>2</sup>	1.1	Nil	76	110-115	n/a	n/a	n/a	n/a	n/a
Rachel Osborne, Non-Executive Director	10-15	Nil	Nil	Nil	10-15	10-15	0.1 <sup>1</sup>	Nil	Nil	10-15
Ian Playford, Non-Executive Director	10-15	0.8 <sup>1</sup>	Nil	Nil	10-15	10-15	2.1 <sup>1</sup>	Nil	Nil	10-15
Victoria Cochrane, Non-Executive Director	10-15	Nil	Nil	Nil	10-15	10-15	0.1 <sup>1</sup>	Nil	Nil	10-15
Liz Doherty, Non-Executive Director	5-10	Nil	Nil	Nil	5-10	0-5 (5-10 FYE) <sup>2</sup>	Nil	Nil	Nil	0-5

1 Comprises reimbursements for travel expenses to required business meetings

2 Full-year equivalent

3 Liz Doherty is also a non-executive director on the MoJ board. Her remuneration for that role is disclosed in the MoJ Annual Report and Accounts.

4 Lynne Hamilton will be leaving her role as Director, Finance, Governance and Performance on 26 May 2017.

5 Natalie Ceeny received a payment in lieu of notice of £36k and untaken annual leave of £3k. These amounts are included in the total amount of salary and fees column.

The following judicial members of the HMCTS board are remunerated as judges and received no additional payments as directors.

- Sir Ernest Ryder, Senior President of Tribunals
- Lord Justice Fulford, Senior Presiding Judge
- District Judge Michael Walker, Judicial Representative (until 30 September 2016)
- District Judge Tim Jenkins, Judicial Representative (from 01 October 2016)

### Salary

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

### Bonuses

Bonuses are based on performance levels attained and are made as part of the appraisal process. They relate to the performance in the year in which they become payable to the individual. Bonuses reported in 2016-17 relate to performance in 2015-16 and the bonuses reported for 2015-16 relate to performance in 2014-15.

### Benefits in kind

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

### Pay multiples

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

**Table 2 – Pay multiples**

	2016-17	2015-16
Band of highest paid director's total remuneration (£000)	175-180	175-180
Median total remuneration (£)	19,746	19,585
Ratio	9:1	9:1:1

Remuneration ranged from £10,000-15,000 to £195,000-£200,000 (2015-16: £10,000-15,000 to £175,000-£180,000).

In 2016-17, one employee received remuneration in excess of the highest-paid director (2015-16: nil).

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

#### Service contracts

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

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

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

**Table 3 – HMCTS Board members' contracts**

Name	Contract start date	Unexpired term	Notice period
Robert Ayling	1 April 2011 (renewed on 1 <sup>st</sup> April 2015)	2 years and 3 months	1 month
Susan Acland Hood	21 November 2016	To retirement	3 months
Lynne Hamilton	13 April 2015	To retirement	3 months
Guy Tompkins	7 November 2005	To retirement	3 months
Kevin Sadler	10 September 1984	To retirement	3 months
Rachel Osborne	1 August 2014	4 months	1 month
Ian Playford	1 August 2014	4 months	1 month
Victoria Cochrane	1 November 2014	7 months	1 month
Liz Doherty	18 January 2016	1 year and 5 months	1 month

Judicial members do not operate under contracts.

## Pension benefits

Table 4 – HMCTS Board members' pension benefits and the cash equivalent transfer values (CETV) of those benefits during and at the end of the financial year

	Accrued pension at pension age as at 31/3/17 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31/03/17	CETV at 31/03/16	Real increase in CETV
	£000	£000	£000	£000	£000
Robert Ayling <b>Independent</b>	N/A	N/A	N/A	N/A	N/A
Susan Acland-Hood <b>Chief Executive</b> (from 21 Nov 2016)	30-35	2.5-5	352	308	40
Natalie Ceeney <b>Chief Executive</b> (until 31 May 2016)	5-10	0-2.5	90	66	23
Lynne Hamilton <b>Director, Finance, Governance and Performance</b>	45-50 plus a lump sum of 50-55	2.5-5 plus a lump sum of 0	814	751	22
Paul Harris, <b>Interim Director, Courts and Tribunals Development</b> (from 30 May 2016 to 20 Nov 2016)	30-35 plus a lump sum of 95-100	2.5-5 plus a lump sum of 7.5-10	598	524	55
Guy Tompkins <b>Operations Director</b>	40-45 plus a lump sum of 120-125	2.5-5 plus a lump sum of 7.5-10	839	752	52
Kevin Sadler <b>Deputy Chief Executive</b>	40-45 plus a lump sum of 130-135	2.5-5 plus a lump sum of 10-12.5	922	805	79
Rachel Osborne	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Ian Playford	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Victoria Cochrane	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Liz Doherty	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>

<sup>1</sup> No pension contributions are made on behalf of HMCTS non-executive Board members.

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or Alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined Alpha. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis (classic, premium or classic plus) with a normal pension age of 60 and one providing benefits on a whole career basis (nuvos) with a normal pension age of 65.

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, Nuvos and Alpha are increased annually in line with pensions increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and five months from their normal pension age on 1 April 2012 will switch into Alpha sometime between 1 June 2015 and 1 February 2022. All members who switch to Alpha have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave Alpha. (The pension figures quoted for officials show pension earned in PCSPS or Alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes.) Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of Classic (and members of Alpha who were members of Classic immediately before joining Alpha) and between 4.6% and 8.05% for members of Premium, Classic Plus, Nuvos and all other members of Alpha. Benefits in Classic accrue at the rate of 1/80<sup>th</sup> of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years, initial pension is payable on retirement. For Premium, benefits accrue at the rate of 1/60<sup>th</sup> of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum. Classic Plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in Premium. In Nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. Benefits in Alpha build up in a similar way to Nuvos, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% of pensionable salary 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. Pension age is 60 for members of Classic, Premium and Classic Plus, 65 for members of Nuvos, and the higher of 65 or State Pension Age for members of Alpha. (The pension figures quoted for officials show pension earned in PCSPS or Alpha – as appropriate. Where the official has benefits in both the PCSPS and Alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

Further details about the Civil Service pension arrangements can be found at the website: [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk)

#### Cash equivalent transfer values

A cash equivalent transfer value (CETV) is the actuarially assessed-capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from lifetime allowance tax which may be due when pension benefits are taken.

#### Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

### 3.3 Statement of Accounting Officer's responsibilities

Under section 7(2) of the Government Resources and Accounts Act 2000, HM Treasury has directed HMCTS to prepare for each financial year a statement of accounts (the Accounts) in the form and on the basis set out in the Accounts Direction issued by HM Treasury on 19 December 2016. The Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the agency and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed and disclose and explain any material departures in the Accounts
- 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
- prepare the Accounts on a going concern basis
- confirm that the Annual Report and Accounts as a whole is fair, balanced and understandable

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

### 3.4 Governance Statement

#### Introduction

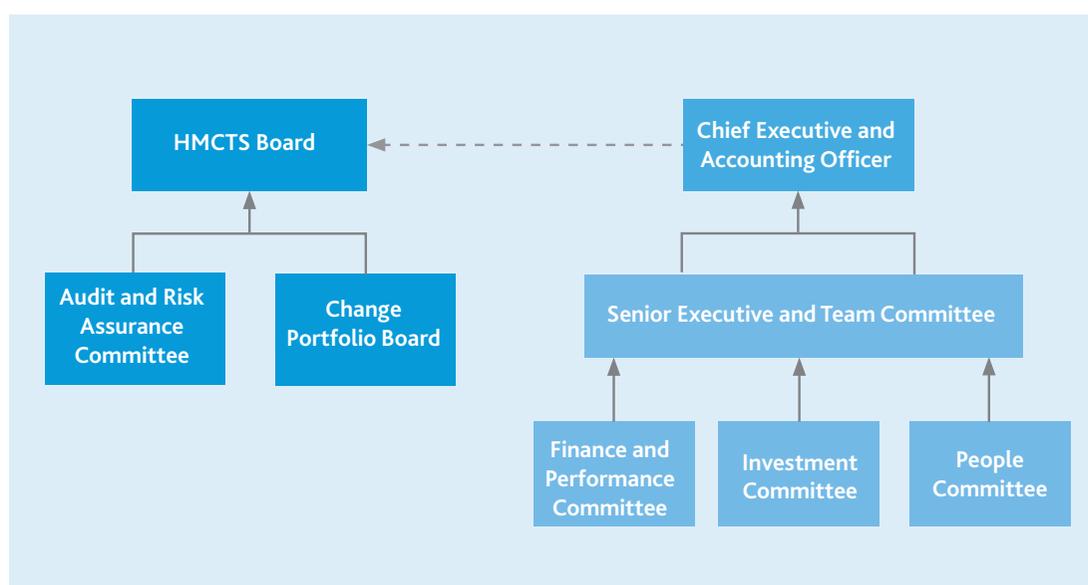
HMCTS is an executive agency of the Ministry of Justice (MoJ). Our key aim is to run an efficient and effective courts and tribunals system which enables the rule of law to be upheld and provides access to justice for all. The organisation operates in accordance with our published Framework Document 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.

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 while 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 performance and talent management for our senior executives at their March 2017 meeting. 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.

### HMCTS Board and its sub-committees

	HMCTS Board	Audit and Risk Assurance Committee	Change Portfolio Board
Terms of reference	These were reviewed and agreed in May 2016	These were reviewed and agreed in April 2016	The Change Portfolio Board was established in May 2016 and its terms of reference were agreed the same month
Roles and responsibilities	Has responsibility for overseeing the leadership and direction of HMCTS in delivering its aim and objectives	This is an advisory body supporting the Chief Executive as Accounting Officer and the HMCTS Board in its responsibilities for risk management, control and governance	Has delegated authority from the HMCTS Board to make decisions about the prioritisation of the programmes and projects within the change portfolio
Chair	Robert Ayling, Independent Director	Victoria Cochrane, senior non-executive director	Susan Acland-Hood, HMCTS Chief Executive
Issues covered	<ul style="list-style-type: none"> <li>Discussed performance at each meeting and had a deep-dive on operational performance</li> <li>Discussed the financial position monthly and the contribution of HMCTS to the MoJ Medium Term Financial Plan</li> <li>Discussed the transformational change programme for our organisation, focusing on people, technology and estate</li> <li>Agreed a Risk Management Strategy</li> </ul>	<ul style="list-style-type: none"> <li>Quarterly deep-dives of corporate risks</li> <li>Substantive discussions on the findings and implementation of recommendations from internal audit reports</li> <li>Discussed the developing Third Party Risk Framework</li> <li>Discussed the implementation of specific change programme projects</li> <li>Engagement with External Audit to increase visibility across the MoJ for matters relevant to HMCTS</li> </ul>	<ul style="list-style-type: none"> <li>Reviewed and discussed progress against programme plans providing input to and direction on overarching Portfolio direction</li> <li>Regularly reviewed the Portfolio's financial position</li> <li>Discussed and reviewed cross cutting work streams plans to ensure they underpin Change Portfolio/ Business needs</li> </ul>

	HMCTS Board	Audit and Risk Assurance Committee	Change Portfolio Board
Effectiveness reviews	<ul style="list-style-type: none"> <li>Discussed findings of annual self-assessment of performance in May 2016</li> <li>Had good results overall and identified key actions including:                             <ul style="list-style-type: none"> <li>inviting ministers, senior judiciary and MoJ officials to observe a Board meeting</li> <li>carried out a cross-jurisdictional performance deep-dive</li> <li>agreed to hold two meetings a year outside London – Board sat at Reading Crown Court in October and included a substantive engagement session with local judiciary and staff</li> <li>Board papers are now electronically bundled</li> </ul> </li> <li>The 2016-17 evaluation was carried out in February 2017 and the results were analysed and discussed at the April meeting. A continuous improvement action plan will be progressed during 2017-18.</li> </ul>	<ul style="list-style-type: none"> <li>Discussed findings of annual self-assessment of performance in April 2016</li> <li>Had good results overall and identified key actions including:                             <ul style="list-style-type: none"> <li>tailored training for Committee members on aspects of governance and assurance and accounts</li> <li>out of committee papers circulated two weeks in advance of meetings and management to attend the meeting to address any concerns as required</li> <li>greater clarity provided on the working relationship between internal audit and the external auditors</li> </ul> </li> <li>The 2016-17 evaluation was carried out in February 2017 and the results were analysed and discussed at the April meeting. A continuous improvement action plan will be progressed during 2017-18.</li> </ul>	<ul style="list-style-type: none"> <li>Following the establishment of the Change Portfolio Board in May 2016, the first annual self-assessment of performance took place in March 2017. A continuous improvement action plan will be developed and progressed during 2017-18.</li> </ul>

## The attendance schedule for the HMCTS Board and its sub-committees

	HMCTS Board		Audit and Risk Assurance Committee		Change Portfolio Board	
	No of eligible meetings	No of meetings attended	No of eligible meetings	No of meetings attended	No of eligible meetings	No of meetings attended
Robert Ayling – Independent Chairman	14	14				
Victoria Cochrane – Non-Executive Board Member	14	13	7	7		
Rachel Osborne – Non-Executive Board Member	14	10				
Ian Playford – Non-Executive Board Member	14	13			4	3
Liz Doherty – Non-Executive Board Member Ministry of Justice	14	13				
Sir Ernest Ryder – Senior President of Tribunals	14	12			11	11
Lord Justice Fulford – Senior Presiding Judge	14	12			11	9
District Judge Michael Walker – Judicial member (1 April to 30 September 2016)	7	7	5	5		
District Judge Tim Jenkins – Judicial member (from 1 October 2016)	7	7	2	2		
Natalie Ceeney – Chief Executive (1 April to 31 May 2016)	3	3	2*	2*	2	2
Susan Acland-Hood – Chief Executive (from 21 November 2016)	5	5	1*	1*	6	6
Kevin Sadler – Deputy Chief Executive and Director of Courts and Tribunals Development (Interim CEO from 1 June 2016 to 20 November 2016)	14	14	3*	2*	11	11
Lynne Hamilton – Director of Finance, Governance and Performance	14	14	7*	5*	11	10

\* Attended as a permanent and mandatory attendee as opposed to a substantive member of the Committee

	HMCTS Board		Audit and Risk Assurance Committee		Change Portfolio Board	
	No of eligible meetings	No of meetings attended	No of eligible meetings	No of meetings attended	No of eligible meetings	No of meetings attended
Guy Tompkins – Director of Operations	14	12			11	9
Paul Harris – Acting Director of Courts and Tribunals Development (from 22 June to 20 November 2016)	5	4			4	4
Judge Brian Doyle – Judicial member			7	6		
Tom Taylor – Independent Non-Executive			7	6		
Faran Johnson					11	7
Kevin Gallagher					11	10
Richard Goodman					11	10
Ian Bull					5	4
Joe Pitman					11	7
Cat Little					7	5
Sidonie Kingsmill					11	9
Matthew Coats					7	1
Shri Mukundagiri					11	9
Stephanie Hill					1	1
Jennie Cronin					8	7
Jan Gower					7	7
Andy Lison					3	3
John Michalski					1	1
Barry Hooper					2	2

## HMCTS executive and its sub-committees

### Senior Management Team (SMT)

SMT supports the Chief Executive in delivering the day-to-day operations and administration of HMCTS, the leadership of its staff and delivery of Accounting Officer requirements. It is chaired by the Chief Executive and its key responsibilities are to:

- set the leadership and direction
- be visible to and within the organisation
- be accountable for delivering aims and objectives
- agree and make recommendations to the HMCTS Board, via the Chief Executive and executive board members on matters not excluding:
  - budget allocations and in year variations
  - strategic objectives, performance and risk, including continuous improvement
  - MoJ policies and the impact on the administration of the courts and tribunals
- monitor performance of HMCTS and performance of the MoJ and Shared Services
- establish and maintain of a strong working relationship between staff and the judiciary
- create and maintain the corporate governance framework and controls
- develop strategic plans for the service
- ensure all matters reserved for the HMCTS Board are considered in an open and timely fashion

Finance and Performance Committee	Investment Committee	People Committee
<p>Chaired by Finance, Governance and Performance Director</p> <p>Key responsibilities:</p> <ul style="list-style-type: none"> <li>• oversee and govern all performance reporting in HMCTS</li> <li>• examine and understand the leading indicators of HMCTS financial and non-financial performance to identify risk and opportunity, and appropriate action</li> <li>• escalate to SMT with recommended course of action, where the scorecard indicates that Business Plan or financial position is at risk</li> <li>• annual budget setting and resource allocation process</li> <li>• oversee and make recommendations to SMT on the annual budget setting and resource allocation process</li> <li>• review and oversee income and debt management, and the relationships that HMCTS has with other government departments which underpins those income streams</li> </ul>	<p>Chaired by Finance, Governance and Performance Director</p> <p>Key responsibilities:</p> <ul style="list-style-type: none"> <li>• review new initiatives, assess their affordability, sustainability and value for money, and where a sufficient case to proceed has been presented approve start up/ continuation of project activity</li> <li>• ensure new initiatives approved by the Committee are aligned and cohere with HMCTS priorities and the transformational change agenda, and that suitable funding has been secured</li> <li>• where required, recommend which Programme Board will oversee governance of newly approved projects</li> <li>• oversee pipelines of proposals and of HMCTS contracts approaching expiry to enable prioritisation decisions to be made</li> </ul>	<p>Chaired by Chief Executive</p> <p>Key responsibilities:</p> <ul style="list-style-type: none"> <li>• drive our people strategy including diversity and induction, health and wellbeing and capability</li> <li>• proactively engage on talent management and succession planning (current and future)</li> <li>• make workforce decisions on people</li> <li>• provide an Annual Report to the HMCTS Board</li> </ul>

### 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 and 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, 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. MoJ 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 MoJ for the provision of shared services
- the Audit and Risk Assurance Committee who oversee 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

#### 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 30 June 2016. The audit examined how departments oversee and manage the relationship with their arm's length bodies (ALBs) and focused on four departments including 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 Cabinet Office focus on reforming and streamlining since 2015) and approaches to ALBs by differ by department but without following a consistent overarching framework. 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.

### 3.5 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

### 3.6 Parliamentary accountability report

The following sections are included to satisfy parliamentary reporting and accountability requirements and are subject to audit.

#### Losses:

	2016-17		2015-16	
	Number of cases	£000	Number of cases	£000
Cash losses	932	282	1,981	385
Administrative write-offs	100	30	155	82
Fruitless payments	8	798	10	691
Constructive losses	–	–	1	8,956
<b>Total losses</b>	<b>1,040</b>	<b>1,110</b>	<b>2,147</b>	<b>10,114</b>

In 2016-17 there was one (2015-16: two) losses over £300,000. A fruitless payment of £411K has been recognised for the premium to exit a building lease.

#### Special payments:

	2016-17		2015-16	
	Number of cases	£000	Number of cases	£000
Compensation payment	154	1,351	252	747
Ex gratia	1,398	1,018	1,549	1,091
Extra-statutory and extra-regulatory payments	377	46	462	81
Special severance payments	–	–	–	–
Loans	–	–	–	–
Gifts	–	–	–	–
<b>Total special payments</b>	<b>1,929</b>	<b>2,415</b>	<b>2,263</b>	<b>1,919</b>

#### Charitable donations

HMCTS made charitable donations totalling £15,000 in 2016-17 (2015-16: £15,000). These donations were made to charitable organisations to support activities related to HMCTS's operations.

#### Fee income

HMCTS is required to disclose performance results for the areas of its activities where fees and charges are made. The analysis is not intended to meet the requirements of IFRS 8 Operating Segments which is not applicable to HMCTS under the requirements of the FReM.

HMCTS covers the following business areas: civil and family courts, tribunal, criminal courts and other. HMCTS collects and reports upon fee charges that have been set by MoJ policy and which appear in statutory instrument fees orders.

Section 180 of the Anti-social Behaviour, Crime and Policing Act 2014 gives the Lord Chancellor, with consent of the Treasury, the statutory power to set certain court and tribunal fees above cost recovery levels. The income generated must be reinvested back into the courts and tribunals service. Government introduced enhanced fee charging for money claims on 9 March 2015, and further enhanced fees including divorce, civil and some tribunals in March, April and July 2016. The system of Help with fees (fee remissions) exists to ensure that individuals are not denied access to the courts if they genuinely cannot afford the fee. Only the civil and tribunal businesses have systems for charging fees. Ministers announced on 18 November that the fee increases for appeals to the Immigration and Asylum chamber, First-tier Tribunal introduced on 10 October would be repealed. A fees strategy review is underway to seek to balance the interests of all court and tribunal users and the taxpayer in the wider context of funding for the system overall.

HMCTS reports on both the civil and tribunal fee-charging business segments. Civil business contains two business streams: family (including probate and court of protection) and civil (including civil business in county courts, higher courts and magistrates' courts). While tribunal business contains three business streams: immigration and asylum, employment, and other fee charging tribunals (including lands, residential property, gambling and gender recognition). The table below shows the operating expenditure of those jurisdictions which are funded by fee income (after remissions) and the extent to which fee income funds them.

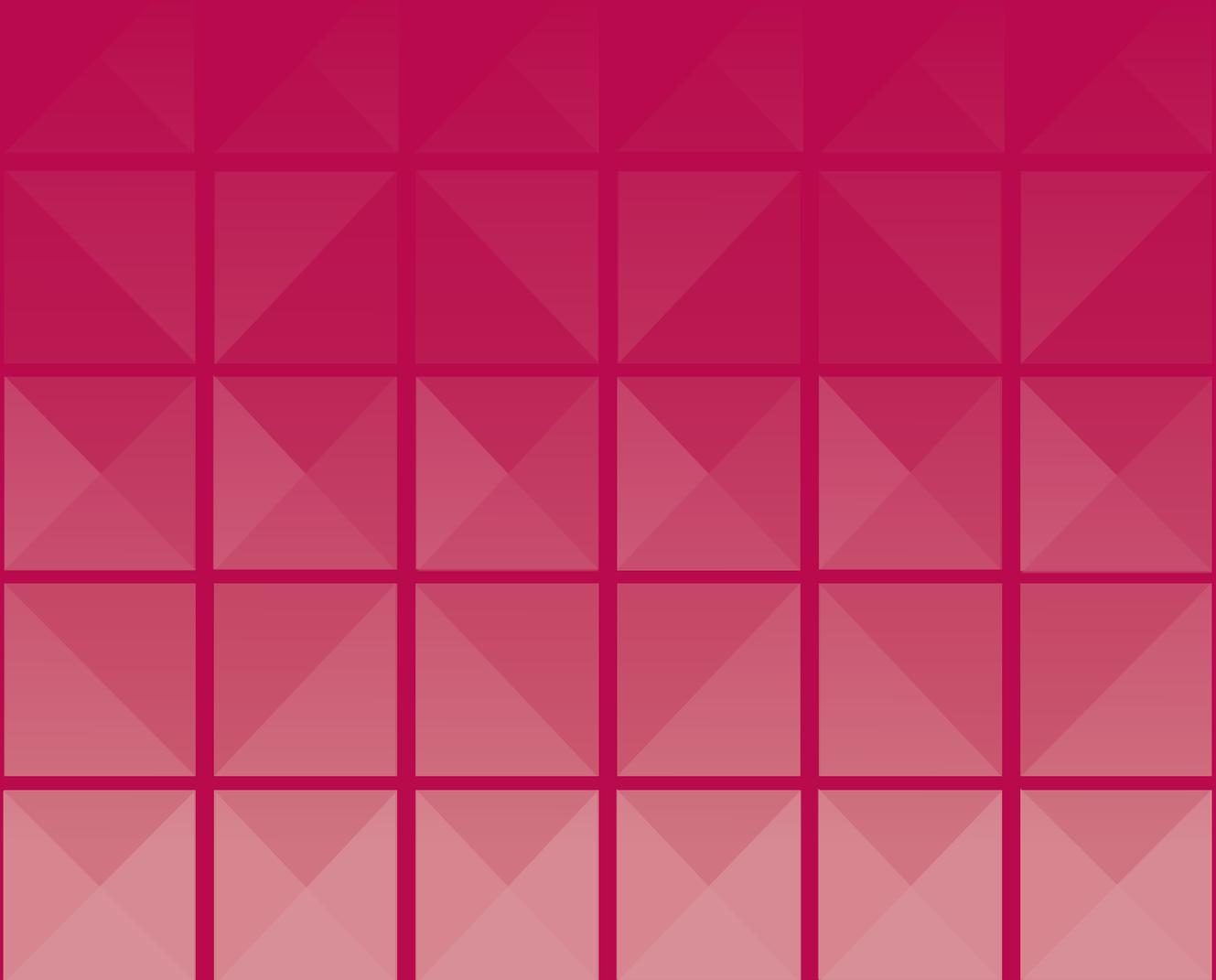
The most current fees orders can be found in Annex A on page 120.

## Fees and charges

	Value of fee charges £000	Fees remitted £000	Income collected £000	Expenditure £000	Income Charge surplus/ (deficit) £000
<b>Civil business</b>					
Family	185,657	(15,451)	170,206	(184,787)	(14,581)
Civil	602,224	(49,170)	553,054	(436,765)	116,289
<b>Total civil business</b>	<b>787,881</b>	<b>(64,621)</b>	<b>723,260</b>	<b>(621,552)</b>	<b>101,708</b>
<b>Tribunal business</b>					
Asylum and Immigration	12,041	(2,462)	9,579	(105,473)	(95,894)
Employment	11,679	(3,894)	7,785	(59,295)	(51,510)
Other tribunals	1,350	(28)	1,322	(15,855)	(14,533)
<b>Total tribunal business</b>	<b>25,070</b>	<b>(6,384)</b>	<b>18,686</b>	<b>(180,623)</b>	<b>(161,937)</b>
<b>2016-17 Total HMCTS business</b>	<b>812,951</b>	<b>(71,005)</b>	<b>741,946</b>	<b>(802,175)</b>	<b>(60,229)</b>
<b>2015-16 Total HMCTS business</b>	<b>708,954</b>	<b>(35,915)</b>	<b>673,039</b>	<b>(782,707)</b>	<b>(109,668)</b>

**Susan Acland-Hood**  
**Chief Executive and Accounting Officer**  
 11 July 2017

## Section 4: External scrutiny



## 4.1 Certificate and report of the Comptroller and Auditor General

I certify that I have audited the financial statements of HM 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 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 'Our Staff' section, Remuneration Report and the Parliamentary Accountability Disclosures that is described in the 'Our controls, governance and accountability 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 circumstances of HMCTS 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 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 affairs of HMCTS as at 31 March 2017 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 parts of the 'Our Staff' section, Remuneration Report and the Parliamentary Accountability Disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the 'Introductions' section, 'Our performance' section and 'Our controls, governance and accountability report' for the financial year for which the financial statements are prepared is consistent with the financial statements

### Matters on which I report by exception

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the 'Our Staff' section, Remuneration Report and the Parliamentary Accountability Disclosures 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.

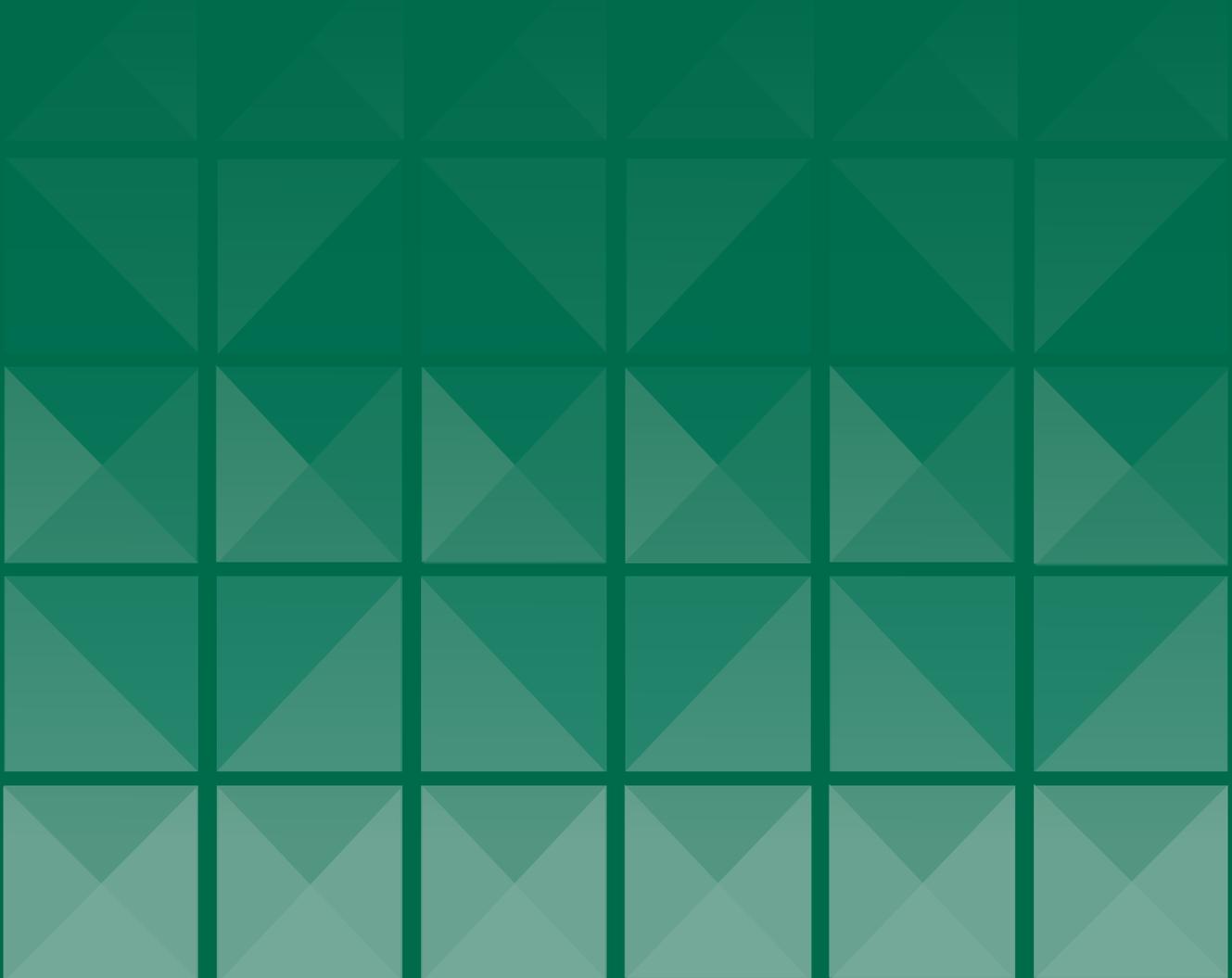
**Sir Amyas C E Morse**  
**Comptroller and Auditor General**

14 July 2017

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



## Section 5: Our expenditure



## 5.1 Accounts

### Statement of comprehensive net expenditure for the period ended 31 March 2017

	Notes	2016-17 £000	2015-16 £000
Operating income	8	(804,926)	(741,224)
<b>Total operating income</b>		<b>(804,926)</b>	<b>(741,224)</b>
Staff costs	3	503,963	501,292
Judiciary costs	3	483,997	462,846
Purchase of goods and services	4	633,820	589,978
Depreciation and impairment charges	5	148,515	212,342
Other non-cash expenditure	6	117,393	126,884
<b>Total operating expenditure</b>		<b>1,887,688</b>	<b>1,893,342</b>
<b>Net operating expenditure</b>		<b>1,082,762</b>	<b>1,152,118</b>
Finance costs	7	16,908	26,410
<b>Net expenditure for the year</b>		<b>1,099,670</b>	<b>1,178,528</b>

### Other comprehensive expenditure

	Notes	2016-17 £000	2015-16 £000
<b>Net costs</b>		<b>1,099,670</b>	<b>1,178,528</b>
Net (gain)/loss on revaluation of property and equipment		(153,086)	(234,691)
Net (gain)/loss on revaluation of intangible assets		(3,891)	(713)
Actuarial (gain)/loss on pension scheme liabilities	17.2	623	(58)
<b>Total comprehensive expenditure</b>		<b>943,316</b>	<b>943,066</b>

The notes on pages 85 to 119 form part of these accounts.

## Statement of financial position as at 31 March 2017

	Notes	2016-17 £000	2015-16 £000
<b>Non-current assets</b>			
Property and equipment	9	3,293,784	3,246,886
Intangible assets	11	169,060	55,063
Trade and other receivables	13	5	1
<b>Total non-current assets</b>		<b>3,462,849</b>	<b>3,301,950</b>
<b>Current assets</b>			
Assets held for sale	10	23,360	8,717
Trade and other receivables	13	91,909	82,266
Cash and cash equivalents	14	1,579	14,414
<b>Total current assets</b>		<b>116,848</b>	<b>105,397</b>
<b>Total assets</b>		<b>3,579,697</b>	<b>3,407,347</b>
<b>Current liabilities</b>			
Trade and other payables	15	(316,405)	(247,785)
Provisions for liabilities and charges	17	(12,496)	(10,910)
<b>Total current liabilities</b>		<b>(328,901)</b>	<b>(258,695)</b>
<b>Total assets less current liabilities</b>		<b>3,250,796</b>	<b>3,148,652</b>
<b>Non-current liabilities</b>			
Trade and other payables	15	(335,693)	(370,350)
Provisions for liabilities and charges		(142,717)	(146,806)
<b>Total non-current liabilities</b>		<b>(478,410)</b>	<b>(517,156)</b>
<b>Total assets less total liabilities</b>		<b>2,772,386</b>	<b>2,631,496</b>
<b>Taxpayers' equity</b>			
General fund		1,879,257	1,840,120
Revaluation reserve		893,129	791,376
<b>Total taxpayers' equity</b>		<b>2,772,386</b>	<b>2,631,496</b>

**Susan Acland-Hood**  
Chief Executive and Accounting Officer

11 July 2017

The notes on pages 85 to 119 form part of these accounts.

## Statement of cash flows for the period ended 31 March 2017

	Notes	2016-17 £000	2015-16 £000
<b>Cash flows from operating activities</b>			
Net expenditure for the year		(1,099,670)	(1,178,528)
Adjustments for notional and non-cash costs	16	406,453	481,385
Adjustments for finance costs	7	16,908	26,410
(Increase)/decrease in trade and other receivables		(97,318)	(93,759)
Increase/(decrease) in trade and other payables		168,009	129,584
Utilisation of provisions	17	(6,155)	(7,033)
<b>Net cash outflow from operating activities</b>		<b>(611,773)</b>	<b>(641,941)</b>
<b>Cash flows from investing activities</b>			
Purchases of property and equipment	16.1	(40,948)	(42,827)
Proceeds from disposal of property and equipment and assets held for sale		8,265	7,678
Purchases of intangible assets	11	(60,930)	(8,842)
<b>Net cash outflow from investing activities</b>		<b>(93,613)</b>	<b>(43,991)</b>
<b>Cash flow from financing activities</b>			
Funding from MoJ		712,700	698,000
Capital element of Private Finance Initiative (PFI) contracts		(8,925)	(8,926)
Capital element of finance leases		(915)	(228)
Repayments of Local Authority loans		(1,970)	(2,093)
Interest paid	7	(8,339)	(9,009)
<b>Net cash inflow from financing activities</b>		<b>692,551</b>	<b>677,744</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period</b>	14	<b>(12,835)</b>	<b>(8,188)</b>
<b>Cash and cash equivalents as at the beginning of the period</b>	14	<b>14,414</b>	<b>22,602</b>
<b>Cash and cash equivalents as of the end of the period</b>	14	<b>1,579</b>	<b>14,414</b>

The notes on pages 85 to 119 form part of these accounts.

## Statement of changes in taxpayers' equity for the period ended 31 March 2017

	Notes	General fund £000	Revaluation reserve £000	Total £000
<b>Balance as at 31 March 2015</b>		<b>1,895,706</b>	<b>611,856</b>	<b>2,507,562</b>
Funding from MoJ		698,000	–	<b>698,000</b>
Intercompany settlement with MoJ		119,822	–	<b>119,822</b>
Net operating expenditure		(1,178,528)	–	<b>(1,178,528)</b>
Notional expenditure:				
Consolidated fund judicial salaries		141,943	–	<b>141,943</b>
External auditors' remuneration	16	300	–	<b>300</b>
Intra-departmental recharges	16	106,935	–	<b>106,935</b>
Revaluation of property and equipment		–	234,691	<b>234,691</b>
Revaluation of intangible assets		–	713	<b>713</b>
Reclassification from revaluation reserve		55,884	(55,884)	–
Actuarial gain on pension scheme liabilities	17.2	58	–	<b>58</b>
<b>Balance as at 31 March 2016</b>		<b>1,840,120</b>	<b>791,376</b>	<b>2,631,496</b>
Funding from MoJ		712,700	–	<b>712,700</b>
Intercompany settlement with MoJ		131,972	–	<b>131,972</b>
Net operating expenditure		(1,099,670)	–	<b>(1,099,670)</b>
Notional expenditure:				
Consolidated fund judicial salaries		142,515	–	<b>142,515</b>
External auditors' remuneration	16	280	–	<b>280</b>
Intra-departmental recharges	16	96,739	–	<b>96,739</b>
Revaluation of property and equipment		–	153,086	<b>153,086</b>
Revaluation of intangible assets		–	3,891	<b>3,891</b>
Reclassification from revaluation reserve		55,224	(55,224)	–
Actuarial (gain)/loss on pension scheme liabilities	17.2	(623)	–	<b>(623)</b>
<b>Balance as at 31 March 2017</b>		<b>1,879,257</b>	<b>893,129</b>	<b>2,772,386</b>

The notes on pages 85 to 119 form part of these accounts.

## 5.2 Notes to the accounts for period ended 31 March 2017

### 1. Statement of accounting policies

These accounts have been prepared in accordance with the Government Financial Reporting Manual (FReM) 2016-17 issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as interpreted for the public sector.

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

#### 1.1 Basis of preparation

The HMCTS accounts have been prepared under the historical cost convention modified to account for the revaluation of property and equipment and intangible assets and certain financial assets and liabilities.

The preparation of the accounts in conformity with IFRS requires the use of certain critical accounting estimates (see note 1.19). It also requires management to exercise its judgement in the process of applying the accounting policies.

#### 1.2 Changes in accounting policy and disclosures

##### a. Changes in accounting policies

There have been no changes in accounting policies for the period ended 31 March 2017.

##### b. New and amended standards adopted

The new standards, IFRS 5 Non-Current Assets held for sale and Discontinued Operations: Changes in methods of disposal and IFRS 7 Financial Instruments Disclosures: Servicing Contracts have been adopted and do not have a material impact on the HMCTS accounts.

##### c. New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2015 and not early adopted

IFRS 15 Revenue from Contracts with Customers, IFRS 9 Financial Instruments and IFRS 16 Leases are not yet effective for public sector reporting.

IFRS 15 and IFRS 9 are not expected to have a material impact on HMCTS's future accounts.

IFRS 16 will change the way HMCTS recognises, measures, presents and discloses leases that it holds. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The full impact of IFRS 16 on HMCTS has yet to be determined and will not be until it has been adopted for use in the public sector by the FReM.

### 1.3 Operating income

Operating income is income that relates directly to the operating activities of HMCTS and is therefore recognised as revenue in the SoCNE in accordance with IAS 18. Further information can be found in note 8.

Operating income is stated net of VAT.

Fee income consists of amounts for services rendered to civil, family court and tribunals users. For most fee income streams the recognition point is the initiation of the application, which occurs immediately on receipt of the application. For other fee income streams which are not initiated immediately, the value of income where payment has been received but work has yet to be completed are recognised in the Statement of Financial Position (SoFP) as deferred income. The deferred income is subsequently recognised as income upon completion of the service.

Fee income is stated net of fee remissions and exemptions. The remissions scheme is prescribed in the Fee Orders approved by Parliament and remitted fees are not collected by HMCTS.

Operating income also includes receipts from other government bodies for the provision of courts and tribunals services. Income is recovered in line with the related service level agreement (SLA) on a full cost basis.

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

### 1.4 HMCTS Trust Statement

HMCTS, as the Executive Agency of MoJ responsible for collecting fines and financial penalties imposed by the criminal justice system, prepares a separate Trust Statement that should be read in conjunction with the HMCTS Annual Report and Accounts.

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

## 1.5 Notional expenditure

Notional expenditure is credited directly to the general fund and comprises the following:

- salaries and social security costs of senior judges funded from the Consolidated Fund
- NAO's remuneration for the audits of HMCTS's accounts and Trust Statement
- HMCTS's usage of corporate services provided by MoJ

## 1.6 Operating segments

Operating segments are analysed in accordance with IFRS 8 Operating Segments along with the lines of information presented to the chief operating decision maker who for the purpose of these accounts is determined to be the Board.

## 1.7 Property and equipment

### Initial recognition and capitalisation threshold

Items of property and equipment, including subsequent expenditure on existing assets, are initially recognised at cost when it is probable that future economic benefits or service potential associated with the asset will flow to HMCTS and the cost of the asset can be measured reliably. All other repairs and maintenance are charged to the SoCNE during the financial year in which they are incurred.

The capitalisation threshold for individual assets is £10,000.

Where significant purchases of individual assets which are separately beneath the capitalisation threshold arise in connection with a single project, they are treated as a grouped asset. The capitalisation threshold for grouped assets is £1 million. Where an item costs less than the prescribed limit, but forms an integral part of a package whose total value is greater than the capitalisation level, then the item is capitalised. All thresholds include irrecoverable VAT.

Where capital budgets are held centrally by MoJ as the parent department, expenditure is first capitalised in the MoJ accounts and transferred to HMCTS when the associated project is complete.

### Subsequent valuation method

Subsequent to initial recognition, land and buildings (including dwellings) are recorded at fair value, as interpreted by the FReM, on the basis of professional valuations which are conducted for each property at least once every five years. In between professional valuations, carrying values are adjusted by the application of indices or through desktop valuations.

Professional valuations are primarily undertaken by the Valuation Office Agency (VOA) using the Royal Institution of Chartered Surveyors (RICS) appraisal and valuation manual, known as the 'Red Book'.

Criminal courts are mostly classified as specialised buildings which cannot be sold on the open market. Specialised properties are valued on depreciated replacement cost (DRC) to a modern equivalent basis in accordance with the FReM, taking into account the functional obsolescence of the property. Leasehold improvements are fair valued using the building cost information service tender price index compiled by RICS.

Assets which were most recently held for their service potential but are surplus are valued at current value in existing use where there are restrictions which would prevent access to the market at the reporting date. If HMCTS can access the market then the surplus asset should be valued at fair value in accordance with IFRS 13.

In determining whether an asset which is not in use is surplus, HMCTS has assessed whether there is a clear plan to bring the asset back into future use as an operational asset. Where there is a clear plan, the asset is not surplus and the current value in existing is maintained. Otherwise the asset is assessed as being surplus and valued in accordance with IFRS 13.

#### Fair value hierarchy and inputs

The valuation technique applied to all the fair value figures of surplus properties is the market approach in accordance with IFRS 13; it uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets.

The inputs to this technique constitute level 2 inputs in each instance. Level 2 inputs are inputs that are observable for the asset, either directly or indirectly. The inputs used take the form of analysed and weighted market evidence such as sales, rentals and yields in respect of comparable properties in the same or similar locations at or around the valuation date.

For other property assets in continuing use, fair value is interpreted as market value or 'value in use'. In the Red Book this is defined as 'market value on the assumption that property is sold as part of the continuing enterprise in occupation'. The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential.

Depreciated historical cost is used as a proxy for fair value for those assets with short useful lives or low values, as allowed by the FReM.

#### Revaluation

Gains arising on revaluation are credited to the revaluation reserve and shown in other comprehensive expenditure, unless they reverse a revaluation decrease on the same asset. Reversals are credited to the SoCNE to the extent of the previous amount expensed, and any excess is credited to the revaluation reserve.

When an asset's carrying value decreases as a result of a permanent diminution in the value of the asset due to a clear consumption of economic benefit or service potential. The decrease is charged directly to operating expenditure in the SoCNE, with any remaining revaluation reserves balance released to the General Fund.

A revaluation decrease (other than as a result of a permanent diminution) is reversed against any existing amount held in the revaluation reserve in respect of the same asset, with any residual decrease taken to operating expenditure in the SoCNE.

Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the SoCNE and depreciation based on the asset's original cost is transferred from the revaluation reserve to the General Fund.

### Depreciation

Depreciation is charged on a straight-line basis at rates calculated to write-off the value of assets less estimated residual value over the estimated useful lives. The useful lives of asset categories are reviewed annually. Where a change in asset life is determined, the asset is depreciated on a straight-line basis over its remaining assessed life. Depreciation commences in the month following the acquisition of a non-current asset for land, buildings and dwellings and in-month for all other non-current assets.

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

Estimated useful asset lives are within the following ranges:

<b>Freehold land</b>	Not depreciated
<b>Leasehold land</b>	Remaining lease period
<b>Freehold buildings (including dwellings)</b>	Shorter of remaining life or 60 years
<b>Leasehold buildings (including dwellings)</b>	Shortest of remaining life, remaining lease period or 60 years
<b>Information technology</b>	Shorter of remaining lease period or 7 years
<b>Equipment</b>	Shorter of remaining lease period or 3 to 5 years
<b>Furniture and fittings</b>	Shorter of remaining lease period or 10 to 20 years

### Assets under construction

Assets under construction are valued at historical cost within property and equipment and intangible assets, and are not depreciated or amortised until completed. On completion, the asset's carrying value is transferred to the respective asset category.

Expenditure is capitalised where it is directly attributable to bringing an asset into working condition.

### Disposals

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are recognised within operating expenditure in the SoCNE.

When revalued assets are sold, the amounts included in the revaluation reserve are transferred to the General Fund.

## 1.8 Intangible assets

Intangible assets are recognised in accordance with IAS 38 Intangible Assets as adapted by the FReM.

Development costs are recognised as intangible assets when they meet the criteria specified in the FReM. Other expenditures that do not meet these criteria are recognised as an expense as incurred. Costs previously recognised as an expense are not recognised as an asset in a subsequent period. The useful lives of internally developed software range from 3 to 10 years.

Purchased software licenses are recognised as assets when it is probable that future service potential will flow to HMCTS and the cost of the license can be measured reliably. Such licenses are initially measured at cost. Purchased software licences are amortised over the licence period.

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

Where capital budgets are held centrally by MoJ as the parent department, expenditure is first capitalised in MoJ accounts and transferred to HMCTS when the associated project is complete.

Subsequent to initial recognition, intangible assets are measured at fair value. As no active market exists for the intangible assets of HMCTS, fair value is assessed as replacement cost less any accumulated amortisation and impairment losses (i.e. depreciated replacement cost).

Intangible assets in service are re-measured at the end of each reporting period using the producer price index issued by the Office for National Statistics (ONS).

## 1.9 Impairment

Impairments are recognised in accordance with IAS 36 Impairment of Assets as adapted by the FReM.

An impairment reflects a diminution in the value of an asset as a result of a clear consumption of economic benefits or service potential. At each reporting date, HMCTS assesses all assets for indications of impairment. If any such indication exists, the assets in question are tested for impairment by comparing the carrying value of those assets with their recoverable amounts. Where the recoverable amount of an asset is less than its carrying value, the carrying value of the asset is reduced to its recoverable amount.

The recoverable amount of an asset is the higher of its 'fair value less costs to sell' and 'value in use' (defined under 'Valuation Method'). Any impairment loss is charged directly to operating expenditure in the SoCNE. If the asset has previously been revalued, any balance in the revaluation reserve (up to the level of the impairment loss) is transferred to the General Fund.

At each reporting date HMCTS also reviews impairment losses recognised in previous years. Any reversal of an impairment loss is then recognised in the SoCNE to the extent that the original charge, adjusted for subsequent depreciation, was previously recognised, with any remaining amount recognised in the revaluation reserve.

### 1.10 Assets held for sale

Non-current assets are classified as assets held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations as interpreted by the FReM.

Non-current assets are classified as 'held for sale' when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable.

Assets held for sale are stated at the lower of their carrying amount immediately prior to classification as 'held for sale' or their fair value less the costs of selling the asset. Any subsequent impairment or reversal of impairment is recognised in the SoCNE. Assets classified as held for sale are not depreciated.

### 1.11 Leases

#### Finance leases

Leases of assets where HMCTS retains substantially all the risks and rewards of ownership are classified as finance leases. At the commencement of the lease term, finance leases are capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. These corresponding rental obligations, net of finance charges, are included in either short-term or long-term payables, depending on the dates HMCTS is contractually obliged to make rental payments. The interest element of the finance cost is charged to the SoCNE over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets acquired under finance leases are depreciated over the shorter of useful life of the asset and the lease term.

#### Operating leases

Leases other than finance leases are classified as operating leases. Payment made under operating leases (net of any incentives received from the lessor) are charged to the SoCNE on a straight-line basis over the period of the lease. Any upfront payments not yet released to the SoCNE are recognised as a lease prepayment in the SoFP.

### 1.12 Service concession arrangements

Service concession arrangements (SCAs), including Private Finance Initiatives (PFI) arrangements, are arrangements whereby private sector operators are contractually obliged to provide services to the public in relation to certain infrastructure assets. HMCTS defines such arrangements as SCAs if they meet the conditions set out in the FReM and IFRIC 12 Service Concession Arrangements.

The future payment streams of SCAs are assessed to separately identify the infrastructure interest and service components.

HMCTS recognises the infrastructure asset at fair value (or the present value of the future minimum infrastructure payments, if lower) as a non-current asset in the SoFP with a corresponding liability for future payments under the agreement.

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

### 1.13 Third party assets

HMCTS holds a number of different cash balances on behalf of third parties. These are not recognised in the SoFP in line with FReM requirements and a disclosure of these balances is made in note 24 to the accounts.

These balances do not include amounts held following the collection of fines and penalties on behalf of other bodies; these amounts are reported in a separate Trust Statement (see note 1.4).

### 1.14 Value added tax (VAT)

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

### 1.15 Provisions and contingent liabilities

Provisions are recognised in accordance with IAS 37 Provisions, contingent liabilities and contingent assets.

Provisions represent liabilities of uncertain timing or amount and are recognised when HMCTS has:

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

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

A contingent liability is disclosed when the likelihood of an outflow of resources is less than probable, but more than remote. Where the time value of money is material, contingent liabilities required to be disclosed under IAS 37 are stated at discounted amounts.

### 1.16 General Fund

Funding received from MoJ is credited to the General Fund within the Statement of Changes in Taxpayers' Equity (SoCTE) upon receipt of the funds.

### 1.17 Employee benefits

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

IAS 19 Employee Benefits requires HMCTS to recognise the expected cost of the annual leave entitlement of its employees that is accrued at the end of each financial year.

### 1.18 Pensions

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

Members of the judiciary are covered by the Judicial Pension Scheme (JPS). Further details of this scheme can be found in note 3.

### 1.19 Critical accounting estimates and judgements

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.

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.

#### Valuation of property and equipment

Land and buildings (including dwellings) comprise mainly court facilities. Land and buildings are shown at fair value, based on professional valuations. The value of land and buildings fluctuates with changes in construction costs and the current market conditions.

### Valuation of court buildings earmarked for closure

As part of an ongoing estate rationalisation review, ministers have earmarked a number of under-utilised court buildings for closure over the next few years. This has reduced the remaining estimated useful life of these assets.

Prior to the announcement of closure these court buildings are considered specialised assets and are valued at depreciated replacement cost (DRC). The announcement of closure triggers the impairment event. The reduction in the remaining useful life of these assets represents an impairment indicator. All impairment expenditure is charged to the SoCNE, with the balance of any revaluation reserve taken to the General Fund. The valuation method will be altered from DRC to the appropriate valuation methodology when the asset is transferred to held for sale or when it becomes surplus.

## 2. Statement of operating costs by operating segments

For financial reporting purposes, the segmental reporting format is determined by the way in which the chief operating decision maker monitors the operating results of segments for the purpose of making decisions and allocating resources. The reporting format for 2016-17 includes the following reportable operating segments:

- business as usual
- change and reform

The operating segment's net expenditure for the year is measured on the same basis as the corresponding amounts reported in the financial statements.

Change and reform expenditure relates to all change projects within HMCTS. This includes the change activity of the Reform, Common Platform and the CJS Efficiency programmes as well as other projects required to introduce new systems for legislative changes.

## 2.1 Segment results

A description of the services from which the reportable segments derive income is provided in note 8. There were no inter-segment transactions in the year (2015-16: nil).

The following table presents the net expenditure for the year by reportable operating segments for the period ended 31 March 2017:

	2016-17		2015-16		Total £000
	Business as usual £000	Change and reform £000	Business as usual £000	Change and reform £000	
Operating income	(804,926)	-	(741,224)	-	(741,224)
<b>Total operating income</b>	<b>(804,926)</b>	<b>-</b>	<b>(741,224)</b>	<b>-</b>	<b>(741,224)</b>
Staff costs	484,784	19,179	489,398	11,894	501,292
Judiciary costs	483,988	9	462,815	31	462,846
Purchase of goods and services	593,337	40,483	561,609	28,369	589,978
Depreciation and impairment charges	147,270	1,245	212,341	1	212,342
Other non-cash expenditure	117,393	-	126,884	-	126,884
<b>Total operating expenditure</b>	<b>1,826,772</b>	<b>60,916</b>	<b>1,853,047</b>	<b>40,295</b>	<b>1,893,342</b>
<b>Net operating expenditure</b>	<b>1,021,846</b>	<b>60,916</b>	<b>1,111,823</b>	<b>40,295</b>	<b>1,152,118</b>
Finance costs	16,908	-	26,410	-	26,410
<b>Net expenditure for the year</b>	<b>1,038,754</b>	<b>60,916</b>	<b>1,138,233</b>	<b>40,295</b>	<b>1,178,528</b>

### 3. Staff and judiciary costs and numbers

Staff costs comprise:

	2016-17 £000	2015-16 £000
Wages and salaries	353,557	369,472
Social security costs	30,137	23,042
Employer's pension contributions	69,326	72,130
Agency staff costs	50,598	34,878
Voluntary early departures	683	1,699
	<b>504,301</b>	<b>501,221</b>
Add: inward secondments	276	561
	<b>504,577</b>	<b>501,782</b>
Less: recoveries in respect of outward secondments	(614)	(490)
<b>Total staff costs</b>	<b>503,963</b>	<b>501,292</b>

Further information on staff costs and numbers can be found in the Our staff section of the annual report on pages 35 to 47.

### 3.1 Judiciary costs and numbers

Members of the judiciary are independent of HMCTS. Their payroll costs are met either from the Consolidated Fund in the case of senior judiciary, or directly by HMCTS for other judiciary. All costs are included within HMCTS's accounts to ensure that the full cost of operations is disclosed. Senior judges also receive long service payments under an agreement with the MoJ. There is a provision for these payments within MoJ accounts.

	2016-17			2015-16				
	Senior judiciary £000	Other judiciary £000	Fee paid £000	Total £000	Senior judiciary £000	Other judiciary £000	Fee paid £000	Total £000
Wages and salaries	126,151	96,874	119,382	342,407	126,421	99,206	102,357	327,984
Social security costs	16,370	12,601	12,754	41,725	15,594	11,775	9,701	37,070
Employer's pensions contribution	48,909	36,298	14,658	99,865	48,588	38,000	11,204	97,792
Judicial agency staff	-	-	-	-	-	-	-	-
<b>Total payroll costs of the judiciary</b>	<b>191,430</b>	<b>145,773</b>	<b>146,794</b>	<b>483,997</b>	<b>190,603</b>	<b>148,981</b>	<b>123,262</b>	<b>462,846</b>

## 3.2 Average number of judiciary

The amounts above include salary costs for an average 881 (2015-16: 900) judicial officers and fees for 1,077 full-time equivalent fee paid judiciary (2015-16: 936). The salary costs of a further 905 members (2015-16: 913 members) of the senior judiciary were met from the Consolidated Fund.

### Judicial Pension Scheme (JPS)

The JPS is an unfunded multi-employer defined benefit scheme which prepares its own accounts, but for which HMCTS is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2012. Details can be found in the resource Accounts of the Judicial Pension Scheme at [www.official-documents.co.uk](http://www.official-documents.co.uk).

Judicial pensions are paid out of the Consolidated Fund where the judicial office holder's salary was paid from that fund or the JPS where the salary has been paid from the department's supply estimate. Contributions to the JPS have been made at a rate of 38.45% (2015-16: 38.45%). The amount of these contributions is included in the table in note 3.1 shown above.

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

Although the JPS is a defined benefit scheme in accordance with FReM 6.2, HMCTS accounts for the scheme as a defined contribution scheme and recognises employer contributions payable as an expense in the year they are incurred.

Pension entitlements are provided to salaried judges under the JPS. In September 2005, a retired fee-paid judicial office holder brought a claim in the Employment Tribunal seeking retrospective parity of treatment with salaried judicial office holders by claiming pension entitlements under the Part Time Workers Regulations.

A UK Supreme Court hearing on 6 February 2013 ruled that a retired fee-paid judicial office holder is entitled to a pension on terms equivalent to those of a salaried judicial office holder. This lead case set the precedent for other stayed cases. Consistent with the accounting for salaried judicial office holders, and in accordance with FReM 6.2, HMCTS accounts for employer contributions payable to the JPS for eligible fee paid judicial office holders as they are incurred, but does not recognise a liability in respect of back payments or the pension liability arising pursuant to the claim. Accordingly, provision for the fee-paid pension entitlement is recognised in the JPS accounts.

Provisions have been recognised in the MoJ accounts for both the liability to fee-paid judicial office holders in respect of the Judicial Service Award, and the separate element of the pension liability relating to fee paid judges, as neither of these is a liability covered by the JPS and its governing Acts.

## 4. Purchase of goods and services

	2016-17 £000	2015-16 £000
Lease other service concession charges:		
Rentals under operating leases	78,828	78,712
PFI service charges	24,834	24,338
Other service concession charges	9,864	9,063
Other services:		
Accommodation, maintenance and utilities	241,508	226,052
IT Services	136,248	111,426
Juror costs	42,549	42,318
Communications, office supplies and services	24,555	25,212
Contracted service costs	21,886	20,719
Consultancy costs	9,843	8,813
Non-pay staff costs	10,125	9,728
Non-pay judicial costs	6,675	6,774
Magistrates' costs	10,093	11,101
Bank charges	4,832	4,966
Other costs	11,940	10,737
Other grants	40	19
<b>Total purchase of goods and services</b>	<b>633,820</b>	<b>589,978</b>

Some elements of the prior year non-pay judicial costs have been reclassified to better reflect the nature of those costs. Of this, £11.1 million was reclassified to a new category, Magistrates' costs, in order to provide better information to users of the accounts.

## 5. Depreciation and impairment charges

	2016-17 £000	2015-16 £000
Depreciation of property and equipment	124,476	116,230
Amortisation of intangible assets	11,105	8,317
Impairment of property and equipment	35,326	150,394
Impairment reversal of property and equipment	(23,652)	(63,041)
Impairment (reversal) of intangible assets	–	34
Impairment (reversal) of assets held for sale	1,761	453
Impairment (reversal) of capital receivable	(681)	–
Increase/(decrease) in receivables impairment	180	(45)
<b>Total depreciation and impairment charges</b>	<b>148,515</b>	<b>212,342</b>

## 6. Other non-cash expenditure

	2016-17 £000	2015-16 £000
Intra-departmental recharges	96,739	106,935
Increase/(decrease) in provisions	1,340	13,391
Capital grant in kind	14,367	–
Straight-lining of operating lease payments	5,406	5,715
Net (gain)/loss on disposal of non-current assets	(739)	543
External auditors' remuneration	280	300
<b>Total other non-cash expenditure</b>	<b>117,393</b>	<b>126,884</b>

### Intra-departmental recharge

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

### External auditors' remuneration

The costs of the audit performed by NAO on behalf of the Comptroller and Auditor General are recognised as a non-cash charge. During the year HMCTS did not purchase any non-audit services. The cost comprises £180,000 (2015-16: £200,000) for the audit of the HMCTS Annual Report and Accounts and £100,000 (2015-16: £100,000) for the audit of the HMCTS Trust Statement.

### Capital grant in kind

Capital grant in kind is recognised in relation to the transfer of property from HMCTS to Homes and Communities Agency, in accordance with the Consolidated Budgeting Guidance.

## 7. Finance costs

	2016-17 £000	2015-16 £000
Finance charge on pension transfer deficit payable	4,910	13,453
Interest on by-analogy pension scheme liability	182	174
Unwinding of discount on provisions	3,477	3,774
<b>Total non-cash finance costs</b>	<b>8,569</b>	<b>17,401</b>
Local authority loan interest	1,196	1,287
Finance charges on PFI and leased assets	7,143	7,722
<b>Total cash finance costs</b>	<b>8,339</b>	<b>9,009</b>
<b>Total finance costs</b>	<b>16,908</b>	<b>26,410</b>

## 8. Operating income

	2016-17 £000	2015-16 £000
Fee income	741,946	673,039
Recoveries from other government bodies	55,841	61,278
Miscellaneous income	7,139	6,907
<b>Total operating income</b>	<b>804,926</b>	<b>741,224</b>

### Fee income

Information on fee income can be found in the Parliamentary accountability report on page 75.

### 8.1 Consolidated Fund income

Total income does not include amounts collected by HMCTS where it was acting as agent of the Consolidated Fund rather than as principal. Full details of income collected as agent for the Consolidated Fund can be found in the HMCTS Trust Statement published separately from these financial statements.

## 9. Property and equipment

	Land excluding dwellings £000	Buildings excluding dwellings £000	Dwellings £000	Information technology £000	Equipment £000	Furniture, fixtures and fittings £000	Assets under construction £000	Total £000
<b>Cost or valuation</b>								
<b>At 1 April 2016</b>	575,178	2,571,431	16,491	48,368	71,858	32,755	33,647	3,349,728
Additions	–	1,839	–	259	1,344	21	63,184	66,647
Disposals	(14,797)	(1,866)	(42)	–	(18)	–	–	(16,723)
Scrap PE	–	(87)	–	(310)	(4,645)	(172)	(141)	(5,355)
Reclassification	(19,738)	29,310	313	1,702	(221)	–	(35,143)	(23,777)
Revaluation	46,177	21,737	121	2,922	677	98	–	71,732
Impairment	–	(36,614)	–	–	–	–	–	(36,614)
Transfers from MoJ	–	(32)	–	62	(31)	–	–	2,358
<b>At 31 March 2017</b>	<b>586,820</b>	<b>2,585,718</b>	<b>16,883</b>	<b>53,003</b>	<b>68,964</b>	<b>32,702</b>	<b>63,906</b>	<b>3,407,996</b>
<b>Depreciation</b>								
<b>At 1 April 2016</b>	–	–	–	(18,008)	(55,719)	(29,115)	–	(102,842)
Charged in year	(729)	(108,830)	(322)	(7,834)	(5,708)	(1,053)	–	(124,476)
Disposals	–	1,865	42	–	14	–	–	1,921
Scrap PE	–	7	–	293	4,380	172	–	4,852
Reclassifications	–	–	–	–	–	–	–	–
Revaluations	729	105,662	280	(1,054)	(536)	(75)	–	105,006
Impairment	–	1,288	–	–	–	–	–	1,288
Transfers from MoJ	–	8	–	–	31	–	–	39
<b>At 31 March 2017</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(26,603)</b>	<b>(57,538)</b>	<b>(30,071)</b>	<b>–</b>	<b>(114,212)</b>
<b>Carrying amount at 31 March 2017</b>	<b>586,820</b>	<b>2,585,718</b>	<b>16,883</b>	<b>26,400</b>	<b>11,426</b>	<b>2,631</b>	<b>63,906</b>	<b>3,293,784</b>
<b>Carrying amount at 31 March 2016</b>	<b>575,178</b>	<b>2,571,431</b>	<b>16,491</b>	<b>30,360</b>	<b>16,139</b>	<b>3,640</b>	<b>36,647</b>	<b>3,246,886</b>
<b>Asset financing:</b>								
Owned	514,852	2,089,947	12,785	26,400	11,426	2,631	63,906	2,721,947
Finance leased	53,958	307,551	4,098	–	–	–	–	365,607
On-balance sheet PFI contracts	18,010	188,220	–	–	–	–	–	206,230
<b>Carrying amount at 31 March 2017</b>	<b>586,820</b>	<b>2,585,718</b>	<b>16,883</b>	<b>26,400</b>	<b>11,426</b>	<b>2,631</b>	<b>63,906</b>	<b>3,293,784</b>

In February 2016, as part of an ongoing court rationalisation review, ministers earmarked a total of 86 under-utilised court buildings for closure (eight of which are classified as assets held for sale as at 31 March 2017) over the following two years. Given these courts are no longer expected to form part of HMCTS's operational estate in the future, their valuation has been decreased to reflect the reduction in the remaining useful life. As this change in asset life indicates a permanent diminution in value, any impairment has been taken direct to the Statement of Comprehensive Net Expenditure, with the balance of any Revaluation Reserve taken to the General Fund.

The total court closure impairment for 2016-17 was £35.3 million (2015-16: £150.4 million)

In 2016-17, land for dwellings and dwellings were amalgamated in a single class of assets. To aid comparison this change has been applied to the prior year property and equipment table. The value of scrapped property and equipment has been disaggregated from disposals to provide better information to users of the accounts.

	Land excluding dwellings £000	Buildings excluding dwellings £000	Dwellings £000	Information technology £000	Equipment £000	Furniture, fixtures and fittings £000	Assets under construction £000	Total £000
<b>Cost or valuation</b>								
<b>At 1 April 2015</b>	529,280	2,539,236	22,437	28,669	64,562	32,832	36,364	3,253,380
Additions	-	2,419	-	20	4,898	-	28,709	36,046
Disposals	-	(60)	-	-	(73)	-	-	(133)
Scrap PE	-	(1,567)	-	(718)	(1,655)	(93)	(34)	(4,067)
Reclassification	(1,012)	29,480	(3,295)	197	313	-	(31,513)	(5,830)
Revaluation	42,810	163,781	(2,651)	597	243	16	-	204,796
Impairment	4,100	(161,883)	-	-	-	-	-	(157,783)
Transfers from MoJ	-	25	-	19,603	3,570	-	121	23,319
<b>At 31 March 2016</b>	575,178	2,571,431	16,491	48,368	71,858	32,755	33,647	3,349,728
<b>Depreciation</b>								
<b>At 1 April 2015</b>	-	1	-	(12,019)	(50,732)	(26,565)	-	(89,315)
Charged in year	(518)	(99,980)	(349)	(6,369)	(6,416)	(2,598)	-	(116,230)
Disposals	-	-	-	-	61	-	-	61
Scrap PE	-	132	-	562	1,547	76	-	2,317
Reclassifications	(20)	20	-	-	-	-	-	-
Revaluations	480	92,496	349	(182)	(179)	(28)	-	92,936
Impairment	58	7,331	-	-	-	-	-	7,389
Transfers from MoJ	-	-	-	-	-	-	-	-
<b>At 31 March 2016</b>	-	-	-	(18,008)	(55,719)	(29,115)	-	(102,842)
<b>Carrying amount at 31 March 2016</b>	575,178	2,571,431	16,491	30,360	16,139	3,640	33,647	3,246,886
<b>Carrying amount at 31 March 2015</b>	529,280	2,539,237	22,437	16,650	13,830	6,267	36,364	3,164,065
<b>Asset financing:</b>								
Owned	504,969	2,097,069	12,517	30,360	16,139	3,640	33,647	2,698,341
Finance leased	53,059	293,654	3,974	-	-	-	-	350,687
On-balance sheet PFI contracts	17,150	180,708	-	-	-	-	-	197,858
<b>Carrying amount at 31 March 2016</b>	575,178	2,571,431	16,491	30,360	16,139	3,640	33,647	3,246,886

## 10. Assets held for sale

	Notes	2016-17 £000	2015-16 £000
<b>As at 1 April 2016</b>		<b>8,717</b>	<b>9,673</b>
Assets reclassified to held for sale from property and equipment		22,986	5,831
Increase/(decrease) in fair value of assets held for sale	5	(1,761)	(453)
Disposals		(6,582)	(6,334)
<b>As at 31 March 2017</b>		<b>23,360</b>	<b>8,717</b>

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

A net profit on disposal of assets held for sale of £1 million (2015-16: £1.2 million) is included within the overall net gain on disposal of property and equipment within other non-cash expenditure which is disclosed in note 6.

## 11. Intangible Assets

	Information technology £000	Software licences £000	Assets under construction £000	Total £000
<b>Cost or valuation</b>				
<b>At 1 April 2016</b>	<b>141,139</b>	–	<b>12,147</b>	<b>153,286</b>
Additions	–	7,800	53,130	60,930
Disposals	–	–	–	–
Scrap IA	–	–	(8)	(8)
Revaluations	9,166	–	–	9,166
Impairment	–	–	–	–
Reclassifications	15,403	–	(14,612)	791
Transfers from Moj	–	–	59,498	59,498
<b>At 31 March 2017</b>	<b>165,708</b>	<b>7,800</b>	<b>110,155</b>	<b>283,663</b>
<b>Amortisation</b>				
<b>At 1 April 2016</b>	(98,223)	–	–	(98,223)
Charged in year	(11,105)	–	–	(11,105)
Disposals	–	–	–	–
Revaluation	(5,275)	–	–	(5,275)
Reclassification	–	–	–	–
Transfers from Moj	–	–	–	–
<b>At 31 March 2017</b>	<b>(114,603)</b>	–	–	<b>(114,603)</b>
<b>Carrying amount at 31 March 2017</b>	<b>51,105</b>	<b>7,800</b>	<b>110,155</b>	<b>169,060</b>
<b>Carrying amount at 31 March 2016</b>	<b>42,916</b>	–	<b>12,147</b>	<b>55,063</b>

All intangible assets are owned by HMCTS. Assets under construction contains £85.8 million in relation to the Common Platform Programme. The value of scrapped intangible assets have been disaggregated from disposals to provide better information to users of the accounts.

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

Asset description	2016-17		2015-16	
	Net book value £000	Remaining amortisation Period (years)	Net book value £000	Remaining amortisation period (years)
Software upgrade programme to case management system	7,196	5	8,497	4
CJS efficiency	10,422	7	–	–

	Information technology £000	Assets under construction £000	Total £000
<b>Cost or valuation</b>			
<b>At 1 April 2015</b>	<b>132,458</b>	<b>4</b>	<b>132,462</b>
Additions	1,165	7,677	8,842
Disposals	–	–	–
Scrap IA	–	(65)	(65)
Revaluations	2,042	–	2,042
Impairment	–	(149)	(149)
Reclassifications	1,803	(1,804)	(1)
Transfers from MoJ	3,671	6,484	10,155
<b>At 31 March 2016</b>	<b>141,139</b>	<b>12,147</b>	<b>153,286</b>
<b>Amortisation</b>			
<b>At 1 April 2015</b>	<b>(88,692)</b>	<b>–</b>	<b>(88,692)</b>
Charged in year	(8,317)	–	(8,317)
Disposals	–	–	–
Revaluation	(1,214)	–	(1,214)
Reclassification	–	–	–
Transfers from MoJ	–	–	–
<b>At 31 March 2016</b>	<b>(98,223)</b>	<b>–</b>	<b>(98,223)</b>
<b>Carrying amount at 31 March 2016</b>	<b>42,916</b>	<b>12,147</b>	<b>55,063</b>
<b>Carrying amount at 31 March 2015</b>	<b>43,766</b>	<b>4</b>	<b>43,770</b>

All intangible assets are owned by HMCTS.

## 12. Financial instruments

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 carrying out its business.

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

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

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

### Fair values

The fair values of HMCTS's financial assets and liabilities as at 31 March 2017 and 31 March 2016 approximate their book values.

## 13. Trade and other receivables

	2016-17 £000	2015-16 £000
Trade receivables	16,094	13,433
Other receivables:		
VAT recoverable	9,411	4,095
Intra-departmental receivables	33,105	35,541
Prepayments and accrued income	29,604	24,747
Other receivables	3,695	4,450
<b>Total amounts falling due within one year</b>	<b>91,909</b>	<b>82,266</b>

Amounts falling due after more than one year:

	2016-17 £000	2015-16 £000
Other receivables	–	–
Prepayments	5	1
<b>Total amounts falling due after more than one year</b>	<b>5</b>	<b>1</b>

## 14. Cash and cash equivalents

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

	2016-17 £000	2015-16 £000
As of the beginning of the period	14,414	22,602
Net increase/(decrease) in cash balances	(12,835)	(8,188)
<b>As at the end of the period</b>	<b>1,579</b>	<b>14,414</b>

The following balances as at 31 March held at:

	2016-17 £000	2015-16 £000
Government Banking Service	1496	14,338
Cash in hand	71	69
Imprests	12	7
<b>Total cash and cash equivalents</b>	<b>1,579</b>	<b>14,414</b>

## 15. Trade and other payables

	2016-17 £000	2015-16 £000
Taxation and social security	15,823	14,768
Trade payables	22,821	15,267
Other payables	13,340	14,056
Intra-departmental payables	59,953	44,538
Accruals and deferred income	162,774	117,399
Cash balances payable to other government departments	3	–
Current part of payable for pension transfer deficit	32,687	32,687
Current part of finance leases	78	144
Current part of imputed finance lease element of on balance sheet PFI contracts	8,926	8,926
<b>Total amounts falling due within one year</b>	<b>316,405</b>	<b>247,785</b>

Amounts falling due after more than one year:

	2016-17 £000	2015-16 £000
Imputed finance lease element of on balance sheet PFI contracts	95,459	104,384
Local authority loan balances	26,105	28,075
Lease incentive creditors	16,395	16,839
Straight lining creditors	83,751	78,443
Payable for pension transfer deficit	104,933	132,710
Finance leases	9,050	9,899
<b>Total amounts falling due after more than one year</b>	<b>335,693</b>	<b>370,350</b>

## 16. Notes to the statement of cash flows

Summary of notional and non-cash costs are as follows:

	2016-17 £000	2015-16 £000
<b>Notional costs</b>		
Consolidated Fund judicial salaries – wages and salaries	126,145	126,349
Consolidated Fund judicial salaries – social security costs	16,370	15,594
External auditor's remuneration	280	300
Departmental recharge	96,739	106,935
<b>Total notional costs</b>	<b>239,534</b>	<b>249,178</b>
<b>Non-cash costs</b>		
(Profit)/loss on disposal of property and equipment	(739)	543
(Increase)/decrease in fair value of property and equipment	(23,652)	(63,041)
Impairment of intangible property and equipment	35,326	150,394
Impairment of intangible assets	-	149
(Increase)/decrease in fair value of intangible assets	-	(115)
Reduction in fair value of Assets Held for Sale	1,761	453
Impairment (reversal) of capital receivable	(681)	
Capital grants <sup>1</sup>	14,367	-
Straight-lining of operating lease payments	5,406	5,715
Movement in provisions	(630)	13,607
Movement in receivables impairment	180	(45)
Depreciation	124,476	116,230
Amortisation	11,105	8,317
<b>Total non-cash costs</b>	<b>166,919</b>	<b>232,207</b>
<b>Total notional and non-cash costs</b>	<b>406,453</b>	<b>481,385</b>

<sup>1</sup> Property transferred to Homes and Communities Agency

## 16.1 Reconciliation of property and equipment

	Notes	2016-17 £000	2015-16 £000
Additions			
Property and equipment	9	66,647	36,046
Plus:			
Movement in capital accrual		(25,699)	6,781
<b>Total purchases per statement of cash flows</b>		<b>40,948</b>	<b>42,827</b>

## 17. Provision for liabilities and charges

	Early departure costs £000	By-analogy pension scheme £000	Dilapidations £000	Other provisions £000	Total £000	2015-16 Total
<b>Balance at 1 April 2016</b>	<b>102,977</b>	<b>5,031</b>	<b>28,322</b>	<b>21,386</b>	<b>157,716</b>	<b>147,252</b>
Provided in the year	2,601	822	969	1,337	5,729	22,382
Provisions not required written back	(3,491)	-	-	(2,245)	(5,736)	(8,833)
Provisions utilised in the year	(4,802)	(215)	(761)	(377)	(6,155)	(7,033)
Unwinding of discount	3,476	182	-	1	3,659	3,948
<b>Balance at 31 March 2017</b>	<b>100,761</b>	<b>5,820</b>	<b>28,530</b>	<b>20,102</b>	<b>155,213</b>	<b>157,716</b>
<b>Analysis of expected timings of discounted flows</b>						
Not later than one year	4,561	324	6,968	643	12,496	10,910
Later than one year but not later than five years	24,703	1,566	5,932	1,153	33,354	36,085
Later than five years	71,497	3,930	15,630	18,306	109,363	110,721
<b>Balance at 31 March 2017</b>	<b>100,761</b>	<b>5,820</b>	<b>28,530</b>	<b>20,102</b>	<b>155,213</b>	<b>157,716</b>

### 17.1 Provision for early departure costs

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

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

An interest rate of 2.80% (2015-16: 3.60%) has been used to assess the interest costs of the scheme liability and future estimated payments have been discounted at a rate of 0.24% (2015-16: 1.37%).

The provision for early departure costs recorded above is separate to the voluntary early departure scheme costs recorded in note 3.

### 17.2 By-analogy pension scheme

The by-analogy pension scheme provision relates to three pension schemes for the Criminal Injuries Compensation (CIC) Tribunal, the Immigration and Asylum Chamber (IAC) and the Residential Property Tribunal (RPT). These schemes have two members, 12 members and 23 members respectively.

The schemes' liabilities were valued by the Government Actuary's Department (GAD) as at 31 March 2017 and the associated interest and current service costs have been charged to the SoCNE.

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

The aggregate actuarial loss on the scheme liabilities in 2016-17 was £623k (2015-16 was an actuarial gain of £58k).

## 18. Capital commitments

Capital commitments at the end of the year not otherwise included in these accounts:

	2016-17 £000	2015-16 £000
Property developments	48,084	4,694
Intangible assets	46,091	866
<b>Total capital commitments</b>	<b>94,175</b>	<b>5,560</b>

## 19. Operating leases

HMCTS leases various land and buildings under non-cancellable operating lease agreements. The land and buildings comprise mainly court facilities and have lease terms ranging from 3 to 40 years. The operating leases do not have purchase options, although some have escalation clauses and terms of renewal. Renewals are negotiated with the lessor in accordance with the provisions of the individual lease agreements.

HMCTS also leases vehicles under non-cancellable operating lease agreements. The lease terms are between one and six years.

The non-cancellable operating lease expenditure charged to the SoCNE during the year is disclosed in note 4.

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

	2016-17			2015-16		
	Land and buildings £000	Other £000	Total £000	Land and buildings £000	Other £000	Total £000
Not later than one year	76,517	545	77,062	77,339	579	77,918
Later than one year but not more than five years	267,548	826	268,374	272,629	690	273,319
Later than five years	932,386	–	932,386	983,833	–	983,833
<b>Total commitments under operating leases</b>	<b>1,276,451</b>	<b>1,371</b>	<b>1,277,822</b>	<b>1,333,801</b>	<b>1,269</b>	<b>1,335,070</b>

## 20 Finance leases

HMCTS leases various buildings under non-cancellable finance lease agreements.

The total future minimum lease payments under non-cancellable finance leases for each of the following periods are as follows as at 31 March 2017:

	2016-17 £000	2015-16 £000
Not later than one year	696	799
Later than one year but not more than five years	2,705	2,915
Later than five years	17,262	22,207
<b>Minimum future lease payments</b>	<b>20,663</b>	<b>25,921</b>
Future interest expense	(11,535)	(15,878)
<b>Total present value of obligations</b>	<b>9,128</b>	<b>10,043</b>

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

	2016-17 £000	2015-16 £000
Not later than one year	78	144
Later than one year but not more than five years	411	353
Later than five years	8,639	9,546
<b>Total present value of obligations</b>	<b>9,128</b>	<b>10,043</b>

HMCTS leases various buildings under non-cancellable finance lease agreements. The buildings comprise mainly court facilities and have lease terms ranging from 20 to 999 years. The finance leases do not have purchase options, although some have escalation clauses and terms of renewal. Renewals are negotiated with the lessor in accordance with the provisions of the individual lease agreements.

## 21. Private finance initiative

HMCTS has entered into eight PFI service concession arrangements. A summary of each PFI contract is set out below:

Project name	Contract start date	Duration (years)	On/off Statement of Financial Position	Initial capital value (£m)	Description
Exeter	November 2002	30	On	20.1	Provision of a courthouse comprising four criminal courts, one civil court and four District Judge hearing rooms. At the end of the contract term the building will revert to HMCTS at no cost.
East Anglia	October 2002	25	On	34.5	Provision of Crown Court centres in Ipswich and Cambridge. Ipswich consists of five criminal courtrooms; Cambridge consists of three criminal courtrooms. At the end of the contract term the buildings in Ipswich and Cambridge will revert to HMCTS at no cost.
Sheffield	November 2002	25	On	7.7	Provision of a Family Hearing Centre in Sheffield. At the end of the contract term HMCTS has the option of acquiring the under lease at the lower of its open market value or £2.0 million.

Project name	Contract start date	Duration (years)	On/off Statement of Financial Position	Initial capital value (£m)	Description
Derbyshire magistrates' courts	August 2001	27	On	29.5	Provision of serviced accommodation for magistrates' courts at New Mills, Chesterfield and Derby. The contract term can be extended (subject to agreement of mutually acceptable terms) by up to five years. At the end of the contract term the buildings shall revert to HMCTS at no cost.
Hereford and Worcester magistrates' courts	March 2000	25	On	30.6	Provision of serviced accommodation for magistrates' courts at Bromsgrove, Kidderminster, Worcester and Redditch. The contract term can be extended for another 10 years. At the end of the contract term the buildings shall revert to HMCTS at no cost.
Manchester magistrates' court	March 2001	25	On	32.9	Provision of serviced accommodation at Manchester Magistrates Court at Spinningfields in Manchester. The contract term can be extended by mutual agreement by up to ten years. At the end of the contract term the building shall revert to HMCTS at no cost.
Humberside magistrates' courts	March 2000	25	On	21.6	Provision of serviced magistrates' courthouses in Hull, Beverley and Bridlington. On expiry, HMCTS has the option of taking the assets back for a nominal amount of £3.0 million.
Avon and Somerset magistrates' courts	August 2004	27	On	46.6	Provision of serviced accommodation at Bristol Magistrates Court, North Somerset Magistrates Court and Avon & Somerset Probation HQ and Training Centre, both at Worle. The contract term can be extended by mutual agreement by up to five years. At the end of the contract term the buildings shall revert to HMCTS at no cost.

## 21.1 On balance sheet contracts

Details of the imputed finance lease charges are given in the table below for each of the following periods:

	2016-17 £000	2015-16 £000
Rentals due not later than one year	14,899	15,434
Rentals due later than one year and not later than five years	54,239	56,382
Rentals due later than five years	74,939	87,694
<b>Minimum future lease payments</b>	<b>144,077</b>	<b>159,510</b>
Future interest expense	(39,692)	(46,200)
<b>Present value of minimum lease payments</b>	<b>104,385</b>	<b>113,310</b>

Details of the minimum service charge element are given in the table below for each of the following periods:

	2016-17 £000	2015-16 £000
Service charge due within one year	24,857	23,338
Service charge due later than one year and not later than five years	99,426	93,350
Service charge due later than five years	158,489	169,972
<b>Total</b>	<b>282,772</b>	<b>286,660</b>

## 21.2 Charge to the Statement of Comprehensive Net Expenditure

The total amount charged in the SoCNE in respect of the service element of PFI contracts and other service concession arrangements recognised on the SoFP was £34.7 million (2015-16: £33.4 million).

## 22. Contingent liabilities

### Unison v Lord Chancellor:

HMCTS has one contingent liability which is presently unquantifiable. In March 2017, the Supreme Court heard the appeal against the Court of Appeal decision regarding the introduction of Employment Tribunal fees. The appellant's challenge to the Fees Order was unsuccessful in two sets of proceedings in the High Court, and on appeal in the Court of Appeal. The Supreme Court judgement is expected in 2017, however it is not possible to accurately measure any potential financial liability to HMCTS.

**Other contingent liabilities:**

HMCTS is involved in several legal cases dealing with ex gratia, compensation and other claims. The estimated cost of settlement for HMCTS is £5.3 million (2015-16: £5.9 million).

**23. Related party transactions**

HMCTS is an Executive Agency of MoJ, which is regarded as a related party. During the year, HMCTS has had material transactions with MoJ and other entities for which MoJ is regarded as the parent entity. HMCTS has also had material transactions with a number of other government departments and central government bodies. In accordance with the requirements of the FReM these transactions have not been reported.

Registry Trust Limited is a private company limited by guarantee with no share capital. It maintains the Register of County Court judgements on behalf of the Lord Chancellor and the Secretary of State for Justice. Revenue recognised from the Registry Trust Limited in the year amounted to £0.5m (2015-16 £0.6 million) with a total debtor balance due to HMCTS as at 31 March 2017 of £0.2 million (2015-16: £0.2 million).

In November 2016, Ian Playford was appointed as interim CEO of the New Property Model, currently a department within the Cabinet Office, whose purpose is to centrally manage the government's non-specialist property assets.

No Board members or related parties have undertaken any material transactions with HMCTS during 2016-17 and 2015-16.

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

## 24. Third party balances

HMCTS holds a number of cash balances on behalf of third parties. These consist of bail monies and monies held on behalf of court users which are received and held while the case progresses. At 31 March 2017 these amounted to £22,457k (2015-16: £21,759k) and have not been recognised in the accounts in accordance with FReM requirements.

## 25. 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 8 June 2017. This is a non-adjusting event. There is no significant impact on these financial statements.

## Annex A – Fees and charges legislation

The most current fees orders are listed below and can also be viewed at <http://www.legislation.gov.uk>

- **The Civil Procedure (Amendment) Rules 2017-95**
  - amends The Civil Proceedings Fees Order 2008/1053 – note the 2008 Fees Order was also amended by 2008/2853, 2009/1498, 2011/586, 2013/1410, 2014/874, 2015/576, 2016/402, 2016/434 and 2016/807
- **Civil Proceedings and Tribunals Fees (Amendment) 2016/807**
  - amends The Upper Tribunal (Immigration and Asylum Chamber) (Judicial Review) (England and Wales) Fees Order 2011/2344 – note the 2011 Fees Order was also amended by 2013/2069, 2014/878 and 2016/402
  - and amends The Magistrates' Courts Fees Order 2008/1052 – note the 2008 Fees Order was also amended by 2008/2855, 2009/1496, 2010/731, 2010/1917, 2013/1409 and 2014/875
  - amends The First-tier (Property Chamber) Fees Order 2013/1179 – note the 2013 Fees Order was also amended by 2014/1182
- **The Civil Proceedings, Family Proceedings and Upper Tribunal Fees (Amendment) Order 2016/402** amends The Family Proceedings Order 2008/1054 – note the 2008 Fees Order was also amended by 2008/2856, 2008/316, 2009/1499, 2010/1916, 2011/587, 2013/1407, 2014/877, 2015/687 and 2015/1419
- **The Non-Contentious Probate Fees (Amendment) Orders 2014 No.876** amends The Non Contentious Probate Fees Order 2004/3210 – note the 2004 Fees Orders was also amended by 2007/2174, 2008/2854, 2009/1497, 2011/588 and 2013/1408
- **The Court of Protection Fees (Amendment) Order 2009/513** which amends The Court of Protection Fees Order 2007/1745
- **The First-tier Tribunal (Immigration and Asylum Chamber) Fees Order 2011/2841** which was reinstated in November 2016
- **The Court of Appeal & Upper Tribunal (Lands Chamber) Fees (Amendment) Order 2016/434** amends the Lands Chamber Fees Order 2009/1114 – note the 2009 Fees Order was also amended by 2010/2601 and 2013/1199
- **The First Tier Tribunal (Gambling) Fees (Amendment) Order 2010 No.633** which amends the First Tier Tribunal (Gambling) Fees Order 2010 No.42
- **The Gender Recognition (Application Fees) (Amendment) Order 2012/920** which amends the Gender Recognition (Application Fees) Orders 2006/758 – note the 2006 Fees Order was also amended by 2007/839, 2008/715, 2009/489 and 2011/628
- **The Employment Tribunals and the Employment Appeal Tribunal Fees (Amendment) Order 2015/414** which amends The Employment Tribunals and the Employment Appeal Tribunal Fees Order 2013 No.1893