

# Legal Aid Agency

Annual Report and Accounts 2017-18





# Legal Aid Agency Annual Report and Accounts 2017-18

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

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# **OGL**

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# Performance report



# **Chief Executive's Statement**

This is the fifth Annual Report and Accounts of the Legal Aid Agency (LAA). This has been an important year for the Agency and I am truly appreciative of the contribution of teams across the LAA who have demonstrated their energy and commitment to deliver.





# Provide simple, timely and reliable access to legal aid

We have delivered on our commitment to provide more efficient legal aid services. We have achieved exceptionally high levels of digital take-up and have launched a new IT portal to improve our users' experience. By working digitally and adopting simpler and smarter ways of working we have consistently exceeded challenging targets for our core business processes; we processed 97% of applications for civil legal aid in 15 working days except in the most complex cases; we processed 100% of applications for criminal legal aid in 2 working days; and we paid 98% of complete, accurate bills within 20 working days. We have also embraced technology and change to further increase the number and speed of calls that we answer.

This year we implemented new Criminal Legal Aid contracts with 1,299 providers to ensure that these services are available to everyone that qualifies. Quality is just as important to us, and this year the Public Defender Service achieved Lexcel accreditation for excellence in legal practice management and client care.



# Build strong relationships across Government and the justice system

We have continued to take a collaborative approach to deliver an efficient legal aid service on behalf of the Government and the taxpayer.

We communicate and work with both legal aid providers and stakeholders and we hold regular meetings with external representative bodies through the Crime and Civil Contract Consultative Groups. We have established the Provider Engagement Team who meet with providers to identify improvements to the way that we work. Outcomes include the streamlining and processing of Special Children Act cases to reduce processing times.

Our relationships with partner organisations in the Ministry of Justice (MoJ) and across Government continue to strengthen as we take a unified approach towards focused outcomes. A key achievement this year has been working with MoJ colleagues, representative bodies and client groups to implement changes to Domestic Violence evidence requirements. We also continue to work with colleagues in the Judicial Office and Her Majesty's Courts and Tribunal Service (HMCTS) to achieve efficiencies across the criminal justice system.

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# Secure value for money for the taxpayer in all that we do

Good financial stewardship and protecting the Fund is a key priority for the Agency. By proactively monitoring how we make our decisions and execute our processes, we have maintained a net error rate of below 1%.

As an Agency we make a determined effort to live within our means. Through our strong financial management we have achieved a reduction in our Administration spend compared with 2016-17 and ensured we stayed within our Administration budget.



# Achieve our full potential through being fair, proud and supportive

We have continued to embed flexible working and collaboration amongst teams across the Agency to benefit both our people and the wider organisation. We support and encourage our staff to embrace technology and smarter ways of working. We continue our investment in our people, offering learning opportunities, development programmes and apprenticeships to ensure that our people have the capability to succeed at all levels.

We continue to focus on making the LAA a better place to work, maintaining a culture which places great value on commitment, resilience and teamwork. I am particularly proud of the LAA's outstanding People Survey results; at 71%, our Employee Engagement Index is in the top five across the Civil Service.

This puts us in a strong position as we continue our transformation work over the coming year to become a simpler, smarter organisation. We will continue to achieve our objectives, working closely with partner organisations in the MoJ, across Government and beyond.

# **Shaun McNally CBE**

Chief Executive and Accounting Officer Legal Aid Agency 13 June 2018



We processed over 500,000 applications for legal aid.

**97%** of civil legal aid applications were processed within 15 working days, except in the most complex cases.

100% of criminal legal aid applications processed within 2 working days.

Processing / delivery



We paid over 530,000 bills within 20 working days of receiving them.

98%
of complete, accurate bills
were paid within 20 working
days, exceeding the

90% target.



The Public Defender
Service achieved Lexcel
accreditation for
excellence in legal
practice management
and client care.

Processing / delivery

Our People



Our staff engagement score rose three percentage points to

71% placing us fifth out

of the **98** participating Government organisations in the People Survey

Our People



We answered over

213,000 phone calls to our call centres, and exceeded all of our customer service and correspondence Key Performance Indicator targets.

Reputation

# **About the Legal Aid Agency**

Our purpose: Working with others to achieve excellence in the delivery of legal aid

Our work to administer legal aid is essential to the fair, efficient and effective operation of the civil, family and criminal justice systems and we have worked closely with legal providers and the wider MoJ to attain this. Our purpose has been at the heart of all our day-to-day decision making and our work to improve legal aid services. The engagement and commitment of our staff is crucial to achieving this.

Our purpose is underpinned by our four Strategic Objectives:



Further detail on our Strategic Objectives can be found on page 13 of the Performance Analysis section.

This is the first year since we refocused our Strategic Objectives. These continue to provide the direction that supports our work to improve and modernise the LAA, strengthen our partnerships across the justice system whilst securing value for money for the taxpayer, and ensure that our people have the right skills and tools to carry out their roles.

Our Strategic Objectives support the MoJ's vision as outlined in the MoJ's Single Departmental Plan:

www.gov.uk/government/publications/moj-single-departmental-plan-2015-to-2020/single-departmental-plan-2015-to-2020

# What we do

# At the core of our work we:

Process applications from providers for legal aid and pay their bills





The LAA administers legal aid throughout **England and** Wales.







Have contract managers who work closely with our provider base to manage relationships and ensure the smooth running of our contracts

Provide independent defence representation for crime cases through the Public Defender Service

# All of this is supported by

MoJ Finance and Digital professionals who support the LAA as part of the functional leadership framework. They administer payment of legal aid, ensure financial requirements are met, and support delivery of key change programmes and our move to digitise services and automate processes.

A corporate function that ensures effective communications, supports our Board and Executive Leadership Team, addresses escalated complaints, and answers Freedom of Information (FOI) and Data Protection Act (DPA) requests.

Shared functions, including human resources and legal services, which provide support to the LAA, MoJ and other government departments.

# **Our People**

Our staff are at the heart of what we do and we have strived to make the LAA a better place to work. In 2017-18 we focused on strengthening our leadership skills, and developing a flexible committed workforce with the right skills, capability and knowledge.

We have remained committed to the values of equality, diversity and inclusion in both the delivery of legal aid and in our workplace.

Our people have benefitted from a range of development programmes within and outside the LAA.

For more information on People Survey, diversity and inclusion please see pages 20 and 57.

#### **Our Partners**

As a key player in the justice system in England and Wales, we work with a wide range of providers of legal services covering many different operating models. These include sole practitioners, large multi-office businesses and not-for-profit organisations. Some provide advice and specialise in a specific area of law, while others deliver work in many different categories of law.

We also work with stakeholders across the justice system. These include the Law Society and Bar Council, both the Family and Criminal Justice Boards, the Solicitors Regulation Authority, HMCTS and the Crown Prosecution Service (CPS).

Our relationships with our providers are central to the work of the LAA. Through meetings such as the Crime and Civil Contract Consultative Groups and the Provider Engagement Team, we ensure we have regular engagement on key operational issues with the main representative bodies. On a daily basis our contract managers and case management staff work closely with our provider base to ensure the smooth running of our contracts and the processing of applications and bills. There are also regular operational announcements published on legal aid pages of GOV.UK.

# **Engagement in Wales**

The LAA, through strategic working groups, maintains links with the Welsh Government, in recognition of the devolved administration.

We work directly with stakeholder groups, for example, the Criminal and Family Justice Boards for Wales, as well as specific Welsh stakeholders including Children and Family Court Advisory and Support Service Cymru.

# **Director of Legal Aid Casework**

The Legal Aid, Sentencing and Punishment of Offenders Act (LASPO) 2012 ensured that the decision making process for legal aid applications remained independent from Ministers. The role of Director of Legal Aid Casework (DLAC), which was created as a result of the Act, has sole responsibility for making decisions on individual applications for legal aid. The LAA Board and the Central Legal Team support

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the Director to ensure that robust practices are in place to maintain the independence of the decision making process. The LAA's Chief Executive undertakes this role. The DLAC Report is published annually alongside the Annual Report and Accounts.

# The Public Defender Service (PDS)

The PDS provides defence advice and representation in all types of criminal cases from the police station to the higher courts. It represents legally-aided defendants. Established in 2001, it was the first publicly-funded, salaried, criminal-defence service in England and Wales. PDS solicitors are based in Swansea, Pontypridd, Cheltenham and Darlington. In 2014, it expanded to include an Advocacy Team. PDS advocates conduct cases throughout the country, and can be instructed by any solicitor firm or legally-aided defendant.

# **Our Reform Programmes**

# **Our Agency Transformation Programme (ATP)**

Through ATP we are committed to delivering more efficient, smarter services to society, the public and our legal aid providers, and ensuring that the LAA remains a great place to work.

The vision of ATP is to simplify the delivery of Legal Aid by 2020. It will do this by achieving the three key aims:

- 1. Provide a service that is easy to access and simple to administer;
- 2. Establish a modern digital service;
- 3. Be a flexible, valued part of the justice system that adapts to meet future needs.

# **Our Change Portfolio**

Our Change Portfolio ensures that we make those changes that are necessary to support our operating environment and continue to meet our performance targets. This includes responses to changes in legislation, new policy initiatives and ministerial priorities, ongoing financial stewardship and keeping pace with modernisation across the justice system.

Some examples of this include:

- Stabilising our IT infrastructure;
- Improving data sharing across the justice system;
- Renewing and re-tendering business critical contracts;
- Ensuring sufficient provision is in place via the 2018 Civil Contract.

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# **Performance Analysis**

# Our year in focus

In our fifth year as an Executive Agency we have delivered a number of service and process improvements which have positively impacted the way we work. This was achieved whilst continuing to deliver strong performance against our Strategic Objectives and operational targets.

# **Our Purpose**

Working with others to achieve excellence in the delivery of legal aid



Provide simple, timely and reliable access to legal aid



Build strong relationships across Government and the justice system



Secure value for money for the taxpayer in all that we do



Achieve our full potential through being fair, proud and supportive

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# Performance against our Strategic Objectives in 2017-18

The commitments associated with our Strategic Objectives (SOs) have been monitored through the LAA's performance management framework, which include Key Performance Indicators (KPIs) that measure significant elements of our day-to-day work.

The performance management framework also measures key milestones in relation to the delivery of the LAA 2017-18 Business Plan commitments. Throughout the year the results were reported to the Executive Leadership Team, the LAA Board and the Mol Executive Committee.



Provide simple, timely and reliable access to legal aid

Customer Service

#### Commitments

- Focus on our core purpose of providing reliable and timely access to legal aid
- Improve and enhance our business processes to ensure we maintain and build upon the excellent customer service we offer to our users and partners in the justice system
- Implement improvements to our business IT systems, increasing our digital offering for staff and users
- Procure new civil legal aid contracts for both face to face advice and specialist advice delivered through the Civil Legal Advice telephone helpline

# SO2

Build strong relationships across government and the justice system

#### Commitments

- · Modernise the way we pay criminal defence advocates and criminal litigators through changes to the Advocates' and Litigators' Graduated Fee Schemes
- Make changes to support the introduction of Universal Credit
- Work with our justice partners to deliver Government priorities on domestic abuse
- Work with our partners across the justice system to deliver further efficiencies in our contact centres
- · Work with our criminal justice partners to support further digitisation of the criminal justice system



Secure value for money for the taxpayer in all that we do

# **KPI: Financial** Management

#### Commitments

- · Live within our means and reduce Administration spend in 17/18
- Implement new **Criminal Contracts** commenced in April 2017
- Support the longer-term focus of further simplifying and automating our services through our portfolio of change and reform
- · Continue to commission legal aid services from quality assured providers

# **SO4**

Achieve our full potential through being fair, proud and supportive

# KPI: People

#### Commitments

- Develop and start to deliver our People Strategy
- Respond to the outcomes of the 2016 People Survey by strengthening leadership at all levels of the organisation through improved conversations, building the skills and capability of our people and being smarter about how we work together
- Continue to build an inclusive workplace, increase diversity and further embed the public sector equality duty in our design and delivery of legal aid

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SO1: Provide simple, timely and reliable access to legal aid



# **KPI:** Operational Delivery

- Measures how quickly we process applications for civil and crime legal aid and pay provider bills.
- Monitors management of providers' contract performance.



We improved our performance for processing crime applications,

and remained within targets for processing crime and civil bills and civil applications

100% of criminal applications were processed within 2 working days (target 90%)

97% of civil applications were processed within 15 working days(target 90%)



We paid 98%of bills in a month (target 90%)



# **KPI:** Correspondence and Customer Service

- Monitors our customer service response to queries, correspondence and complaints, including Freedom of Information (FOI) and Data Protection Act (DPA) requests.
- Monitors the service we provide via the Civil Certificated Helpline, measuring how quickly we answer calls and deliver customer satisfaction.

**100%** of 1st tier complaints were dealt within 20 days (target 90%)

100% of FOL requests were answered in 20 days (target 90%)

**98%** of DPA requests were answered in



98% of 2nd tier complaints were dealt within 20 days (target 90%)



of Members of Parliament correspondence were dealt within 20 days (target 90%)

Calls were answered in an average of



1:50

for Civil for Crime

in our Central Contact Centre (target less than 02:50 minutes)



Our abandoned call rate further reduced to:

5.4% for Civil

6.9% for Crime (target less than 12%)



# Strategic Objective 1 is linked to the following commitments:

# Key for milestone reporting



Achieved



Not achieved



Focus on our core purpose of providing reliable and timely access to legal aid



Improve and enhance our business processes to ensure we maintain and build upon the excellent customer service we offer to our users and partners in the justice system



Implement improvements to our business IT systems, increasing our digital offering for staff and users



Procure new civil legal aid contracts for both face to face advice and specialist advice delivered through the Civil Legal Advice telephone helpline

This year we extended our telephony solution to centralise crime calls into one central crime contact centre. We also transitioned our Exceptional and Complex Case team calls to our Customer Services team which has made it easier for providers working on high cost cases to contact us, further improving customer services.

We continue to implement improvements to our business IT systems. From 2 January 2018 it became mandatory for criminal solicitors and barristers to submit their claims for work undertaken in the Crown Court using the online Claims for Crown Court Defence (CCCD) system thus enabling quicker processing times and allowing for instant direct communication with providers.

An upgraded IT portal has also been released, providing improved service to internal and external users. We continue to improve the stability of our systems through ongoing maintenance, enhancements and proactive monitoring. This has led to the number of high priority IT incidents falling for the last two years.

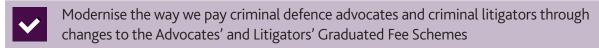
For staff we have further improved the ability to work flexibly by rolling out Office 365 and Windows 10 laptops with new collaboration tools to 1,300 staff across 11 sites.

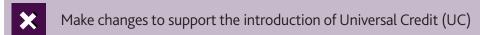
The procurement process for the new face to face and civil legal aid contracts was delayed due to the General Election. The tenders closed on 10 November 2017, and contracts will begin on 1 September 2018.



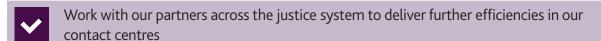
SO2: Build strong relationships across Government and the justice system

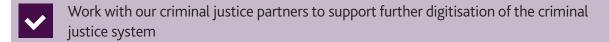
# 2 Strategic Objective 2 is linked to the following commitments:











The Litigators' Graduated Fees Scheme (LGFS) reform came into effect on 1 December 2017. This was the first of a two-stage approach to reform, lowering the threshold for Pages of Prosecution Evidence (PPE) as a proxy for complexity. The MoJ has committed to working with representative bodies to modernise LGFS in the longer term.

The Advocates' Graduated Fee Scheme (AGFS) took effect from 1 April 2018. The MoJ has listened carefully to concerns raised by the criminal Bar and are working with the Bar to address them.

The MoJ has not yet published the outcome of its consideration of responses to its consultation on Legal Aid Eligibility and Universal Credit. We continue to work with the MoJ to ensure we are ready to deliver any changes required.

We worked with MoJ colleagues to implement changes to Domestic Violence evidence requirements, including removing the time limit attached to pieces of evidence and expanding the types of evidence that could be used. These changes took effect on 8 January 2018.

Work started on the Agency Transformation Programme (ATP, further details of which can be found on page 11). Joint provider research has been undertaken with HMCTS and data sharing initiatives have also commenced with Department for Work and Pensions (DWP) and Her Majesty's Revenue and Customs (HMRC).

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Close links have been made with the Criminal Justice System Common Platform Programme and other digital initiatives across the MoJ. The benefits checker tool developed by LAA is being used across the MoJ and wider Government.



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# SO3: Secure value for money for the taxpayer in all that we do



# **KPI:** Financial Management

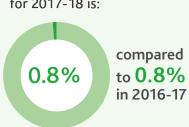
- Agency administration costs Deliver the efficiencies and cost savings required to enable the Agency to deliver simple, timely and reliable access to legal aid within the allocated administration budget.
- Legal Aid Fund Spend Exercise careful financial stewardship of the Legal Aid Fund, focusing on identifying efficiencies and fraud prevention
- Net Error rate Monitoring the accuracy with which we grant applications for legal aid and process bills.

# In 2017 18:



We maintained strong financial stewardship, reduced administrative running costs, and remained within our Administration budget.

The net estimated error rate for 2017-18 is:



For more information on LAA expenditure refer to the Financial Management Commentary and Financial Statements.

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# Strategic Objective 3 is linked to the following commitments:



Live within our means and reduce Administration spend in 17/18



Implement new Criminal Contracts which commenced in April 2017



Support the longer-term focus of further simplifying and automating our services through our portfolio of change and reform



Continue to commission legal aid services from quality assured providers

The 2017 Crime Contract was successfully implemented on 1 April following a procurement process which resulted in 1,299 organisations being tasked to deliver Criminal Legal Aid services under the new contract. A key change introduced in the 2017 Crime Contract was the introduction of new contract terms designed to tackle 'ghost' solicitors, who may be registered to firms but who carry out little or no duty solicitor work. The list of duty solicitors contains 5,500 members which is a reduction of about 1,000 members compared to the previous members list. This reduction reflects our joint work with the Law Society to ensure the list was refreshed to remove anyone not meeting the qualifying criteria.

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**Strategic** Objective 4

# SO 4: Achieve our full potential through being fair, proud and supportive



# **KPI:** People

Sick Absence – Monitor the number of days lost through sickness.

In 2017/18:



4.9 average working days lost due to sickness of staff across LAA (compared to 5.6 for 2016-17)



# Strategic Objective 4 is linked to the following commitments:



Develop and start to deliver our People Strategy



Respond to the outcomes of the 2016 People Survey by strengthening leadership at all levels of the organisation through improved conversations, building the skills and capability of our people and being smarter about how we work together



Continue to build an inclusive workplace, increase diversity and further embed the public sector equality duty in our design and delivery of legal aid

We consulted on and launched our People Strategy which sets out our objectives and aims for the next four years. Through our Agency Transformation Programme Organisational Design workstream we have started to explore how the LAA should look and feel beyond 2020 in order to deliver more efficient, smarter services to society, the public and our legal aid providers, and to ensure that the LAA remains a great place to work.

This year we launched our Learning and Development Strategy which outlines the opportunities our staff have to develop as individuals and build their careers. To strengthen leadership at all levels we launched our new LAA Leaders intranet page, hosted a LAA Leadership event for all line-managers and improved access to shadowing through our Follow a Leader scheme. We actively participated in the MoJ Schools Programme and promoted our apprenticeships offer as part of the Social Mobility Programme.

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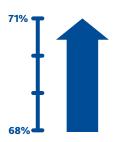
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We made further progress with smarter working by embedding flexible working across our Case Management Teams and achieved Wellbeing Gold accreditation.

Our staff engagement score rose by 3 percentage points from **68% to 71%** 



The LAA are in the top 10 (of 98 Civil Service organisations that participated) for 8 out of 9 categories



To continue building an inclusive workplace, increase diversity and further embed the public sector equality duty we launched our Fair and Included Recruitment campaign designed to embed flexible working and greater flexibility of location into new roles. We also introduced Diverse Recruitment Panels supported by our diverse recruitment pool, launched a series of face to face unconscious bias training sessions and held Phase II Disability Awareness Workshops.

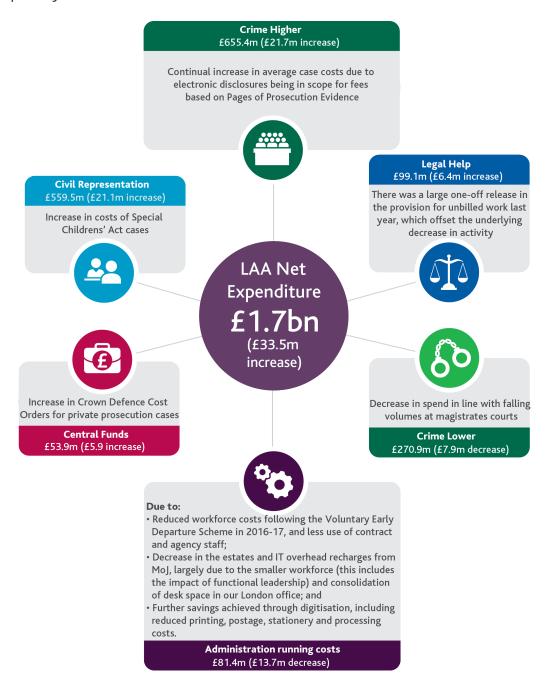
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# **Financial Management Commentary**

This section provides commentary to support the Financial Statements and our performance during the past year. The Financial Statements are set out from pages 64 to 98. Note 2 to the Financial Statements on page 80 details the net operating costs for each of the segments below and notes 2-6 set out expenditure and income in detail. Below are the largest movements, comparing 2017-18 to 2016-17, in legal aid spend by scheme:



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# Significant items in the LAA's Statement of Financial Position

# Provision for liabilities and other charges

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

# Trade and other receivables

This includes money due from legal aid providers and clients who have received legal aid, with the majority being due under a statutory charge. Statutory charges arise when legally aided clients successfully gain or retain an asset as a result of the legal assistance they receive. In these circumstances the client must repay the cost of their legal aid. If the client has insufficient disposable assets to repay the legal aid, the LAA gains security over the debt by registering a formal charge over the relevant asset. The Lord Chancellor is entitled to defer enforcement of this charge and to accrue interest against this debt at 8% simple interest until such time that the claimant is able to repay the debt. The debt will either be recovered when the asset is sold, or before if the client has the means to repay it sooner. Clients are encouraged to repay the debt as soon as they are able to minimise interest charges.

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# Sustainability Report

We are committed to creating a sustainable, effective and efficient estate which provides value for money for the taxpayer, reduces our environmental impact and enables transformation to the way civil servants work.

To reduce our environmental impact we have worked towards the Greening Government Commitments and the Government's commitments for delivering sustainable operations and procurement.

# Our strategy for sustainability focuses on:

**Environmental awareness** – waste minimisation and recycling is well-practised within our day-to-day operations. We also promote responsible procurement and waste management practices. The Department for Environment, Food & Rural Affairs (DEFRA) provides details of Government Buying Standards for a range of products. The requirements of the

Government Buying Standards are mandated for use by us and are included as part of all tendering activity where they apply.





**Digitisation** – over recent years we have had tremendous digital transformation, moving from paper-based operations to almost paperless. During the first three quarters of 2017-18, 97% of initial contact to the LAA, including submission of applications and

bills took place online. We strive to use digital by default, and continue to look for opportunities for further automation. 2017 saw the launch of ATP, which aims to further increase automation and efficiency and should reduce waste and paper-based operations beyond what we have already achieved. Paper usage has fallen again from 19 to 10 tonnes (reduction of £8,000 in spend), demonstrating the continued benefits from projects that were completed in the previous financial year. We have rolled out new technology for staff, including Windows 10, Skype and Office 365, through Workplace Transformation.

In addition, efficiency has been sought through the use of shared functions, including Shared Services Connected Limited, the Central Legal Team, and the Human Resource Business Partners, which provide support to the LAA, MoJ, and other Government Departments. This reduces the required staff, resources, office spaces, and emissions. During 2017-18, former LAA sites in Bristol, Cardiff and Manchester all moved to cross-government hubs, which enable us to share resources with other Government Departments and public bodies.

LAA has an established Green Champion to help raise sustainability awareness and improve working practices in our offices. LAA staff participate in MoJ-wide activities such as recycling, composting of new biodegradable cups introduced at 102 Petty France and initiatives on biodiversity such as Big Garden Bird Watch.

# **Environmental sustainability measure reporting**

# Since 2016-17

Paper Electricity Gas consumption Waste reduction in MWh reduction reduction in reduction in in tCO<sub>2</sub>e paper consumption tonnes

### **Greenhouse Gas emissions**

Energy		2017-18	2016-17²	2015-16 <sup>2</sup>	2014-15²
	Gas – Scope 1 non-renewable energy <sup>3</sup>		103	177	157
Non-financial	Electricity – Scope 2 non-renewable energy <sup>3</sup>	404	521	661	605
indicators (Tonnes of CO <sub>3</sub>	Electricity – Scope 2 renewable energy <sup>3</sup>	128	156	198	181
equivalent (tCO,e))	Official business travel emission – Scope 3	171	165	265	343
1 \ 2 //	Total	798	945	1,301	1,286
Non-financial indicators (Megawatt hour MWh)	Gas – Scope 1 non-renewable energy³	514	560	959	853
	Electricity – Scope 2 non-renewable energy <sup>3</sup>	1,050	1,356	1,720	1,574
	Electricity – Scope 2 renewable energy <sup>3</sup>	332	405	514	470
	Total	1,896	2,321	3,193	2,897
Financial indicators (£000)	Gross expenditure on energy <sup>3</sup>	210	267	350	319
	Expenditure on official business travel <sup>1</sup>	619	502	896	1,459
	Total	829	769	1,246	1,778

<sup>1</sup> Excludes travel relating to staff who have moved to MoJ Core Department as part of functional leadership. For more information refer to note 1z in the

The comparative years' results have been updated to reflect the current output conversion multiplier.

Energy consumption and Greenhouse Gas (GHG) emissions from electricity and gas purchased for heating have decreased compared to last year. Our Cardiff, Manchester and Bristol offices have entered into new accommodation arrangements during the year and the utilities consumption and cost will now be reported through shared occupancy. We also no longer have a site in Chester.

The increase from 2014-15 to 2015-16 throughout this report is the full year impact of the HMCTS Criminal Applications Team and National Taxing Team transferring to LAA. There was also an increase in gas prices of 10% between 2014-15 and 2015-16.

Available information reported for: Cambridge, Bristol, Nottingham, Leeds, Newcastle, Darlington, Pontypridd, Swansea, Birmingham, Cheltenham, Manchester, Brighton, Chester, and Cardiff.

# Travel

Travel		2017-18 <sup>1</sup>	2016-17²	2015-16²	2014-15 <sup>2</sup>
Output information (000 km)	Motor vehicle	255	366	513	561
	Rail	2,476	1,912	3,193	4,415
	Flight	55	64	153	237
	Total	2,786	2,342	3,859	5,213
Output information (tCO2e)	Motor vehicle	47	67	94	102
	Rail	116	89	149	207
	Flight	8	9	22	34
	Total	171	165	265	343

<sup>1</sup> Excludes travel relating to staff who have moved to MoJ Core Department as part of functional leadership. For more information refer to note 1z in the financial statements.

There have been significant reductions to motor vehicle emissions, while rail emissions have increased as more staff choose to travel by rail. Overall emissions have increased by 4%.

Several factors have led to the increase in rail spend over 2017-18, including the launch of new projects being delivered across the UK. Notably, ATP requires travel to different sites in order to understand current processes and identify efficiencies. The aim of this project is to result in a smarter, more efficient organisation in the long-term. Social mobility is another new area to LAA which has seen an increase in headcount throughout 2017-18 and which requires travel to deliver results UK-wide.

Operational assurance and contract management have high levels of rail spend due to the range of work they carry out across the UK.

# Finite resource consumption

Water <sup>2</sup>			2016-17 <sup>1</sup>	2015-16	2014-15
Non-financial information (cubic meters)	Water consumption	14,897	14,792	13,102	9,634
Financial information (£000)	Water supply costs	21	21	20	14

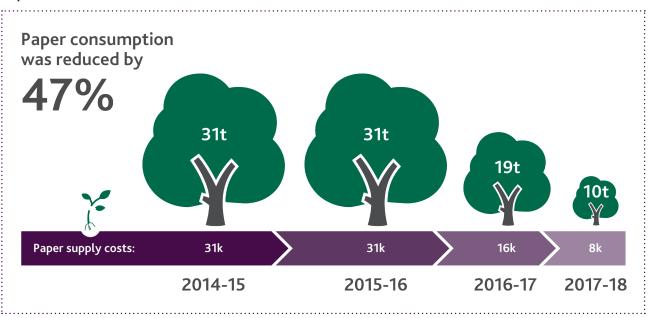
<sup>1</sup> The 2016-17 comparatives have been revised to reflect more up to date information.

Our consumption of water has remained relatively stable between 2016-17 and 2017-18.

<sup>2</sup> The comparative years' results have been updated to reflect the current output conversion multiplier.

<sup>2</sup> Available information reported for: Cambridge, Nottingham, Newcastle, Darlington, Swansea, and Cheltenham.





<sup>1</sup> Includes estimated data for quarter 4 based on quarter 3 results as actuals are not yet available. "t" = tonnes

Our consumption of paper between years has significantly reduced and spend has halved between 2016-17 and 2017-18. This is a positive outcome from our progress towards achieving a digital paperless operation. We procure 100% recovered waste paper for in-office printing and external publications are printed on at least 75% recycled paper.

# Waste minimisation and management

Waste <sup>2</sup>		2017-18	2016-17¹	2015-16 <sup>1</sup>	2014-15 <sup>1</sup>
Non-financial information (tonnes)	Waste sent to landfill	276	298	345	298
	Waste recycled/reused	335	366	692	618
	Total	611	664	1,037	916
Financial information (£000)	Waste sent to landfill	30	32	37	32
	Waste recycled/reused	4	5	9	8
	Total	34	37	46	40

1 The comparative years' results have been updated to reflect the current output conversion multiplier.

Spend on waste has lowered due to new facilities management contracts in 2017-18. We continue to provide easily accessible recycling bins in all our offices to encourage landfill minimisation and ensure the reuse of finite resources. Further progress in digital working and paper reduction should also reduce waste in the future.

<sup>2</sup> Available information reported for: Cambridge, Nottingham, Leeds, Newcastle, Darlington, Pontypridd, Swansea, Birmingham, Cheltenham, Brighton, and London

# **Going forward**

We are continuously improving systems and controls to completely and accurately capture our environmental sustainability measures. MoJ launched a new digital strategy in April 2018, which will further contribute to improving the efficiency of working practises.

Our sustainability strategy is to continue operating closely with the MoJ's Sustainable Development Team towards the Greening Government Commitments 2016-2020. Together, we will continue to work on reducing GHG emissions, improve our waste management, further reduce water consumption, and buy more sustainable and efficient products and services with the aim of achieving the best long term minimum environmental impact. Our Sustainable Development Team and Facilities Management continue to find ways for us to reduce our carbon footprint through facilities upgrade.

Furthermore, we are undergoing further estates rationalisation to reduce the amount of space we occupy through more flexible working arrangements. This will further reduce our required travel and accommodation energy needs.

Signed for and on behalf of the Legal Aid Agency

Shaun McNally CBE Chief Executive and Accounting Officer Legal Aid Agency 13 June 2018

# Accountability report



# Corporate governance report

# Introduction

Our Framework Document sets out the arrangements for governance, accountability, financing, staffing and operations and can be viewed in full at https://www.gov.uk/government/organisations/legal-aidagency/about/our-governance#laa-framework-document

As Chief Executive and Accounting Officer (AO) for the LAA, I am responsible for the LAA's use of resources in carrying out its functions as set out in the Framework Document. 'Managing Public Money' as issued by HM Treasury also sets out the responsibilities of an AO.

As AO, I am personally responsible for safeguarding the public funds for which I have charge, for ensuring propriety and regularity in the handling of public funds, and for day-to-day operations and management of the LAA. In addition, I must ensure that the LAA as a whole is run in accordance with standards in terms of governance, decision making and financial management.

My report outlines the governance arrangements in place to manage risks to the achievement of the LAA's agreed objectives and targets, and to provide effective oversight and control over its resources and assets. It includes:

- Directors' report;
- Statement of the Accounting Officer's responsibilities;
- Governance statement.

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# Directors' report

The composition of the LAA Board, the Audit and Risk Assurance Committee (ARAC) and the Executive Leadership Team (ELT) are detailed on page 37. Together they are responsible for setting the LAA's strategic direction and monitoring performance against agreed objectives.

# Statement of Directors' interests

Non-Executive Board Members (NEBMs) are required to declare any directorships and conflicts of interest on appointment. All Board Members are also required to declare any previously undisclosed conflicts of interest. There have been no additional declarations made during 2017-18.

# **Personal Data Incidents**

Consideration was given to whether any incident involving personal data was so serious it should be reported to the Information Commissioner's Office (ICO). In 2017-18, there was one personal data incident reported to the ICO. Further detail regarding the incident can be found on page 44.

The Governance Statement on pages 33-45 considers further information assurance and data security practices in the LAA.

# Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Legal Aid Agency to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the LAA and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer (AO) is required to comply with the requirements of the Government Financial Reporting Manual 2017-18 and in particular to:

- Observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts;
- Prepare the accounts on a going concern basis;
- The AO confirms that, as far as he is aware, there is no relevant audit information of which the LAA's auditors are unaware, and he is has taken all the steps to make himself aware of relevant audit information and to establish that the LAA's auditors are aware of that information; and
- The AO confirms that the Annual Report and Accounts as a whole is fair, balanced and understandable and he takes personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

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

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# **Governance Statement**

# Introduction

This statement covers my second year as Chief Executive and AO for the LAA. I remain responsible for maintaining a robust system of internal control that supports the achievement of the LAA's policies, aims and objectives, while safeguarding public funds and departmental assets. This is in accordance with the responsibilities assigned to me in HM Treasury's publication 'Managing Public Money'.

Additionally, I continue to perform the role of Director of Legal Aid Casework (DLAC), which is designated to me by the Lord Chancellor. As DLAC I am supported by the LAA's Board and my Central Legal Team in ensuring that robust practices are in place to maintain an independent decision-making process for granting legal aid. My DLAC Annual Report provides a summary of decisions made, the work carried out on my behalf and the processes followed.

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# **Relationship with Parliament**

The LAA is subject to scrutiny from Parliament. This includes the Public Accounts Committee (PAC), the Justice Select Committee (JSC) and the Parliamentary and Health Service Ombudsman (PHSO). The Mol, and the LAA as an integral part of the department, have continued to work across the justice system to share best practice and identify and implement efficiencies that improve the service we provide to our users.

# Parliamentary and Health Service Ombudsman

The LAA has in place a two-tier complaints procedure providing a process for complaints to be reviewed objectively before the complainant decides whether or not to refer their matter to the PHSO through their local Member of Parliament. Where appropriate the LAA will engage directly with the PHSO liaison officer to:

- Discuss progress on individual cases;
- Provide updates on changes: for example, policy changes and potential impacts for the PHSO;
- Ensure two-way sharing of best practice and constructive feedback.

The LAA has regular meetings with a MoJ-wide complaints forum as the themes and working relationships are similar. This provides an opportunity to work collaboratively to continually improve our complaints handling service.

During 2017-18, the LAA was notified of 16 complaint referrals. Out of these, six were accepted for a formal investigation. The PHSO reached conclusions on six ongoing cases in this year (case conclusions can span multiple years and there is no direct correlation to complaints raised or concluded each financial year). Of the concluded cases none were upheld in full, three were upheld in part and three were not upheld. Of the recommendations made, all have either been complied with or are in the process of being implemented within agreed timescales. At the conclusion of an investigation the LAA will take the necessary action to carry out the recommendations made by the PHSO. This can inform changes to processes and ways of working which will have a positive impact on the provision of public services in the future.

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# Governance framework

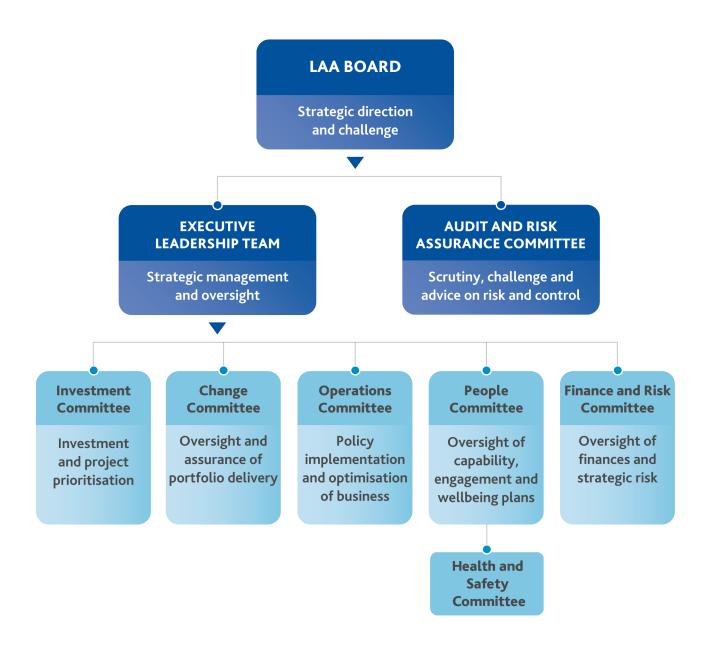
The governance structure is detailed on page 36 and was established with the commitment to streamline our governance while enabling adequate oversight and control of the LAA's delivery priorities. This was developed in line with the principles of the HM Treasury best practice guide 'Corporate Governance In Central Government Departments: Code of Good Practice' (the Code), to the extent it applies to an Executive Agency.

The governance structure implemented has worked effectively and as intended, providing strong support to myself as AO and the wider Executive Leadership Team (ELT) in discharging our responsibilities.

However, to ensure that the governance structure remains effective and responsive to changes in the LAA and MoJ that have occurred over the last year we have undertaken a further review of the Board Operating Framework. The review did not recommend any material changes to the Framework and satisfied me that the structure and framework remain fit for purpose.

While the review reaffirmed the effectiveness of the current structure this year I have agreed that we will implement changes in the governance framework to support our change agenda and deliver key decision-making in a more streamlined and efficient process. These changes will be implemented in early 2018-19.

# **Governance Structure**



Performance report

# Committee Membership and Attendance

MEMBERS	GENDER	LAA B	LAA BOARD		л	ARAC	
Members		Member	Invitee	Member	Invitee	Member	Invitee
EXECUTIVE BOARD							
Shaun McNally CBE Chief Executive, LAA	М	11 of 11		Chair			Υ
Ruth Wayte Principal Legal Advisor to the LAA Operations Committee Chair	F	8 of 11		Υ			
James McEwen Director of Finance and Digital (until 08.09.17)	М	4 of 6		Υ			Υ
Jane Harbottle Head of Civil and Crime Case Management Operations Committee Chair	F	9 of 11		Υ			
David Thomas Deputy Director of Assurance Change Committee Chair	М	11 of 11		Y			Υ
Adrian Hannell Interim Director of Finance Investment Committee Chair	М	8 of 11		Υ			Υ
Sally Jones Head of Corporate Centre People Committee Chair (until 20.09.17)	F	6 of 6		Υ			
Paul Henson Interim Deputy Director of Finance Finance and Risk Committee Chair (from 26.10.17)	М	5 of 5		Υ			
Samantha Milton Head of Public Defender Service People Committee Chair (from 26.10.17)	F	4 of 5		Υ			
NON-EXECUTIVE BOARD							
John Grosvenor Finance	М	9 of 11				Chair 3 of 5	
Andrew Lockley Legal	М	10 of 11				5 of 5	
Eric Gregory Commercial	М	9 of 11				5 of 5	
OTHER							
Head of IT, Digital and Change	М		Υ	Υ			
Head of Planning and Performance	F		Υ	Υ			
Head of Service Development & Commissioning	F			Υ			
Head of Contract Management	М			Υ			
MoJ HR Director for Corporate Services and LAA	F		Υ	Υ			
MoJ Director, Legal Aid Policy	М		Υ				
MoJ Deputy Director, Legal Aid Policy	F		Υ				
MoJ Director General of Finance	М		Υ				

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# Committee roles and responsibilities

# **Legal Aid Agency Board**

The LAA Board supports me as AO and my other senior officials in directing the business of the LAA. The Board is ultimately responsible for providing advice on the governance and strategic direction of the LAA. Some responsibilities of the Board are delegated to its committees as set out below (pages 38-39).

The composition of the Board has remained unchanged over the last year, being comprised of:

- Chief Executive;
- The Non-Executive Board Members (NEBMs);
- The Principle Legal Advisor;
- · Director of Finance; and
- The Chairs of the five Committees.

While the roles that comprised the Board have remained the same there were some changes of individuals with James McEwen and Sally Jones leaving the LAA, while Samantha Milton and Paul Henson joined.

There were 11 meetings of the Board, as well as two Board strategy meetings during 2017-18. The first of these strategy meetings focussed on the Agency's risk appetite whilst the second meeting, later in the year, discussed the design principles that would underpin the future Agency's Organisation Design work.

During the year the Board has reviewed key aspects of LAA's performance focusing on achievements, risks and improvement actions. They have used for these purposes management's finance and performance reports, and taken assurance from the work of Internal Audit that effective financial controls are in operation underpinning the data included in these reports. The Board has also taken a great interest in staff engagement; monitoring progress against plans and scrutinising the People Plan for 2018-19. After evaluating its own effectiveness the Board agreed that it would improve the flow of information to it from the Audit and Risk Assurance Committee (ARAC). The Board also commissioned work to update and improve the induction to the Board in order to provide the best possible support for new members. Over the year the Board has continued to increase the visibility of its members by visiting different LAA offices.

# **Audit and Risk Assurance Committee**

The ARAC advises the Board collectively on issues of risk, control and governance, using its professional expertise in financial, legal and commercial matters to challenge and support the LAA. The committee is made up of three NEBMs, who are also members of the LAA Board. They do not have any executive responsibilities.

The ARAC has continued to maintain strong oversight and challenge of the LAA's financial statements, error rate, data security and business continuity arrangements, receiving assurance reports from

management and internal and external audit.

In exercising their duties and accountabilities both the Board and ARAC have provided significant support, challenge and guidance over the course of the financial year.

# **Executive Leadership Team**

The ELT is the senior committee and has overall management responsibility for the LAA. ELT take decisions on the strategy for, and management of, the LAA, including the future capability and capacity of the LAA to meet departmental and Government reform plans, and the strategic management of corporate level risks.

The ELT maintains high-level oversight of the operational running of the LAA and is supported in its responsibilities by five committees, created to facilitate deeper, focused discussions on specific issues as well as the completion of tasks delegated from the ELT.

- Operations Committee: To take decisions on implementing policy proposals and on the optimisation of business processes to deliver legal aid efficiently and effectively – including the interface with providers. It will review and challenge performance not limited to external KPIs and oversee the management of operational risks.
- Finance and Risk Committee: To support the ELT in its oversight responsibilities by focusing on financial and risk management processes within the LAA. It is an advisory and challenge body that will support the Board, the ELT, the ARAC and the business in its management of risk.
- People Committee: To provide constructive business-focused input, decision making and assurance that the LAA is delivering on its people strategy, capability and wellbeing plans.
- Investment Committee: To scrutinise and approve business cases including the allocation of funds.
- Change Committee: To effectively assure the LAA's change portfolio to deliver maximum benefit to the organisation and its people.

# Internal control framework

The system of internal control is designed to manage risk to an acceptable level, rather than to eliminate all risk in relation to achieving its policies, aims and objectives. Based on the LAA's assurance framework I am reasonably assured of the effectiveness of the system of internal control.

As explained in our operating model above, I am assisted in the stewardship of the LAA's resources and management of its risks by the Board, the ELT and Committee Chairs. I receive written assurance from my Deputy Directors on the effectiveness of risk management and control in the form of annual assurance declarations. In addition, the MoJ provides us with a common platform of digital, financial, and HR systems, policies and expertise that are applied where relevant. I also receive an internal audit service from the Government Internal Audit Agency, which provides me with independent assurance over the effectiveness of my organisation's governance, risk management and control environment.

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# **Head of Internal Audit Opinion**

During the course of the audit programme in 2017-18 there were three audits rated as 'Limited' with the remaining audits being rated 'Moderate' or 'Substantial'. Of the actions recorded there were nine high priority and 28 medium priority. Overall this is an improvement compared to the previous year.

In her annual report to the LAA, the Head of Internal Audit commented "management have been proactive to accept and implement key recommendations to improve controls arising from the work of Internal Audit". Management action continues to be monitored by LAA Assurance and reported on to the ARAC.

Based on the work completed throughout the course of the year, her knowledge of the LAA's governance, controls, risk management framework and attendance at the ARAC the Head of Internal Audit has provided a moderate level of assurance.

# Assessment of significant risks and issues

As an organisation we have continued to manage ongoing and inherent risks to the delivery of our strategic objectives. The ARAC, the ELT and the Board have continued to review and challenge the progress made to manage and contain the risks documented in the LAA's Corporate Risk Register, which has focused on the key internal, external and strategic risks to the delivery of our objectives. This has included risks relating to, but not limited to; the LAA's finances, systems, market stability, change portfolio and structures and operations.

Our focus continues to be on working alongside our providers of legal aid to maintain stability in the market by: responding to legal challenges to the funding decisions we make; managing our reliance on the MoJ's IT infrastructure and LAA legacy systems; and reducing the likelihood of fraud and error arising in the legal aid Fund.

# Market and system stability

The 2017 Standard Crime Contract took effect on 1 April 2017. Contracts were awarded to 1,299 providers to ensure delivery of criminal legal aid services.

A project was established during 2017 to ensure the continued provision of civil legal aid services through to the introduction of a 2018 Standard Civil Contract which will take effect from 1 September 2018. It has involved the delivery of a short consultation with representative bodies on the content of the proposed contract, before the opening of a non-competitive tender in September 2017. The LAA received bids from over 1,725 organisations and is currently assessing bids ahead of notifying successful providers.

### **IT Services**

Over 97% of initial interactions with the LAA now take place online. Therefore, IT disruptions can have a significant impact on the submission and processing of applications and payments for legal aid, staff

morale, service to the public and stakeholder relationships. Our dedicated Incident Management and Live Service Support teams continue to work on our service continuity processes to minimise impact and work through any disruption with our service providers. We have manual contingency processes to ensure we can prioritise emergency cases during these periods of disruption. We have improved our proactive monitoring of applications to ensure that any issues can be detected and remedied as quickly as possible.

We have also continued to remedy system weaknesses, conducted upgrades and applied critical patches, generating further improvements in our system stability and user satisfaction. We continue to improve the quality of our digital systems. We have rolled out the CCCD system which is used by criminal providers. It passed the Government Digital Service assessment standard and has received excellent feedback from its users. We continue to work with providers, software vendors, other Government agencies and users of our systems to make improvements to our services. The number of high priority incidents and outages have fallen year on year for the last two years. The introduction of the new LAA online portal has significantly improved stability and reliability of access for our external users. We have also implemented a live service tracker so that users are informed of any outages and planned maintenance. However, more needs to be done to the infrastructure. In 2018-19 we will begin to move our applications to the cloud and implement modern hosting arrangements which will address many of these weaknesses and ensure systems are resilient, provide high availability and perform well.

# **Cyber Security**

As we become more reliant on continued access to our online systems to administer legal aid, it becomes more important to ensure that we have effective cyber security and processes in place.

The LAA is adopting the wider MoJ Digital approach to managing cyber security risks, protecting critical services by improving underlying technology in accordance with National Cyber Security Centre policies and guidance.

In addition, the LAA IT & Digital team currently have a Technical Information Assurance Practitioner who reports into our Chief Security Officer working with product teams in this area. During the course of the year we have reviewed our IT security processes and procedures, which included an improvement plan to help prevent a successful attack and mitigate the impact of an attack occurring.

To assess our preparedness for a cyber-attack we have also conducted a test exercise on our response to a major incident. This was an effective exercise and the output has been used to help strengthen our response plans.

# **Shared Services and Standard Operating Platform**

Following the LAA migration to the new cross-Government Single Operating Platform (SOP) in January 2017, along with other bodies in the MoJ Group, further work was needed to optimise and streamline controls. This system is only used for LAA's running costs, not for legal aid Fund expenditure, so represents a small proportion of spend reflected in this Annual Report and Accounts. During 2017-18

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the LAA worked with the Mol and Shared Services Connected Limited (SSCL) to understand the issues experienced and to identify initiatives to deliver improved services. The ELT, supported by the People and Finance and Risk Committees, will continue to maintain oversight of the service provision from SSCL.

### **Error rate**

The complexity of legal aid means there is an inherent risk of error because of incorrect eligibility assessments or inaccurate payments. This is continually scrutinised and managed as part of our stewardship arrangements. Our application and payment processes are subject to ongoing policy and administrative changes. In response we continue to focus on reducing error in a stable and sustainable way by working closely with our providers, and collaborating across our contract management, case management, finance and digital teams to identify and address root causes and strengthen both internal controls and provider compliance. In addition, where we identify a particular payment was irregular, we review and recover such payments.

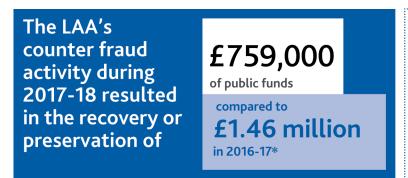
Specific issues to highlight this year:

- A continued risk of error on Crime Higher assessments due to the difficulty validating electronically submitted Pages of Prosecution Evidence. We have released new guidance for validating this material and fed into a redesign of the fee schemes that help to reduce the impact of this issue;
- Errors in Civil Representation billing, which we are addressing through control improvements and provider education;
- The level of Crime Lower error has reduced in 2017-18. Mitigations include enhanced auditing of providers, increased recovery of overpayments, and provider education;
- Our Legal Help net error rate was 0.70% in 2017-18, below the 0.75% target set for the year.

Our estimated gross error was £22.0m (2016-17: £18.3m). We have continued our focus on recovering overpayments of legal aid, which has helped reduce the most likely level of error to a net position of £13.7m or 0.8% of expenditure (2016-17: £12.9m or 0.8% of expenditure). Based on the statistical sampling techniques used, we have 95% confidence that the actual level of error is between 0.5% and 1.2% of legal aid spend.

### Fraud

Counter Fraud updates are a standing item on the ARAC and the most significant matters receive active attention from the Board. Our fraud policy and counter fraud strategy are reviewed annually, with the fraud action plan and counter fraud activity reported monthly. We raise awareness of fraud amongst our people and stakeholders through the use of presentations, intranet articles and advice.



In 2017-18 the LAA continued to apply its risk based approach to preventing, identifying and investigating suspected fraud.

\*The amount recovered in 2016-17 included a recovery of over £800k from one legal aid provider. Due to the nature of the work of the Counter Fraud team large individual recoveries can distort year on year comparisons.

In December 2017 the LAA became host to the MoJ Counter Fraud & Investigations Function in recognition of the expertise and successful work undertaken within the LAA. We continue to foster close working relationships with the DWP, Solicitors Regulation Authority, HMRC and wider stakeholders to gather intelligence, share data and better inform our prevention and prosecution actions. We collaborate with law enforcement agencies and the CPS to ensure national file standards and practice are followed. We participate in the National Fraud Initiative and work closely with Cabinet Office on a range of fraud detection and prevention measures.

# Whistleblowing

I can confirm that in the 2017-18 financial year we have not received any notification of whistleblowing cases within the IAA.

We participated in the Civil Service whistleblowing awareness day in September 2017, including events and information for staff, with resources available to staff on the LAA intranet pages. Those resources include a video of a presentation from the Civil Service Commission.

The MoJ also promoted whistleblowing as part of a fraud and whistleblowing awareness week in March 2018 which also covered LAA staff.

# Information assurance and data security

The LAA transacts on high volumes of personal data belonging to its clients every day. We therefore take information security very seriously and direct our people to complete mandatory training on their responsibilities for handling information. All incidents are investigated to ensure that root causes are identified and corrected where possible. In addition, the ARAC challenges our performance on incident management providing direction and oversight.



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In 2017-18, there were 137 personal data-related incidents reported. This is the third consecutive year in which we have recorded a reduced number of incidents. This reduction is in part due to continued growth in electronic ways of working and also due to a continued policy of communication, awareness and training for staff.

During the year there has been one incident which has been reported to the Information Commissioner's Office. This related to the loss of some client files following the theft of a courier van in which they were being transported. As a result of this incident we have strengthened our processes for the transfer and transporting of files to reduce the risk of similar event occurring.

CATEGORY	NATURE OF INCIDENT	2017-18	2016-17
1	Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises	38	79
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises	17	25
III	Insecure disposal of inadequately protected electronic equipment, devices or paper	0	0
IV	Unauthorised disclosure	73	131
V	Other (policy non-compliance)	9	13
Total incidents record	led	137	248

General Data Protection Regulations (GDPR)

# 2018 saw significant changes to UK data protection law that had implications for any organisation that handles personal data. In May 2018, the new General Data Protection Regulation (GDPR) and Data Protection Act 2018 came into force in the UK, including implementing the EU Law Enforcement Directive (LED). These contain similar concepts and principles as the Data Protection Act 1998 (DPA), however they do also contain some new and significantly changed elements.

In preparation for the new laws a project team was set up to manage the significant activity required to ensure future compliance. This includes extensive and continuing work to make our IT systems compliant in the way personal data is stored and for how long. We have put in place a range of measures, including a review of the data we hold, an update of data protection policies and a renewal of our privacy notices alongside implementing new processes and changes to existing processes required to ensure that the way in which personal data is used meets the enhanced requirements.

We are committed to complying with the new laws and continue to work to make sure we meet the expectations of the Information Commissioner's Office (ICO) and the public. I am confident that the work we are doing in this area will strengthen and provide the necessary safeguards for the personal data we hold.

# Conclusion

I am confident this statement provides a comprehensive account of the governance, risk management and control arrangements we have embedded within the LAA. The success of these arrangements is due to the people and processes in place, which have ensured the LAA has met its business objectives and continues to be a supportive and innovative place to work as reflected in our Civil Service People Survey results.

Signed for and on behalf of the Legal Aid Agency

# Shaun McNally CBE

Chief Executive and Accounting Officer Legal Aid Agency 13 June 2018

# Remuneration and staff report

This chapter summarises the LAA's policy on remuneration of Executive Board Members and NEBMs and staff. It also provides detail of actual costs and contractual arrangements.

The Remuneration and staff report has been prepared in accordance with the requirements of the Financial Reporting Manual as issued by HM Treasury.

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

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

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

# **Remuneration Policy**

# **Executive Board Members**

# Service contracts

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

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

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk

# Performance process

SCS follow the Cabinet Office guidelines that incorporate the SCS Performance Management Framework. There were two 'formal' Performance Management Review (PMR) discussions in the year and then regular one-to-one meetings to monitor progress and ensure that all objectives were still relevant. The performance measures for each member of the Executive Board have been met.

# Total amount of salary and fees

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

# All taxable benefits

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

Benefits recognised relate to travel and subsistence. The benefits in kind stated for Executive Board Members and NEBMs are estimates, the final values are to be agreed between the LAA and HMRC, and paid using a PAYE Settlement Agreement

# **Bonus payments**

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2017-18 relate to the performance in 2016-17 and the bonuses reported in 2016-17 relate to the performance in 2015-16.

# All pension related benefits

Section 229 of the Finance Act 2004 determines the maximum annual level of pension savings that can be accrued under a defined benefit arrangement before any taxation is charged. The amount of savings shown in Table A is the increase in the value of the individual's promised benefits over the pension input period (which is the financial year for the LAA). Any increase is the difference between the value of the individual's benefits at the start of the pension input period (1 April 2017) and the value of the individual's benefits at the end of the pension input period (31 March 2018); this also incorporates any increase to pensionable pay.

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

# **Non-Executive Board Members**

Three NEBMs were recruited through an open competition in accordance with the Constitutional Reform and Governance Act 2010. They were appointed on merit and in recognition of their respective abilities and experience by a panel including a MoJ Non-Executive Director and delegated subject specialist as relevant. The Chief Executive appointed the NEBMs for a fixed period of three years; during 2015-16 all NEBMs received three-year contract extensions.

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

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

Details in relation to NEBMs service terms, benefits or remuneration are included in Tables E and F on page 54.

Table A: Senior employees in post at 31 March 2018 – Employment costs

			2017-18					2016-17		
Executive Board Members	Total amount of salary and fees	All taxable benefits (to nearest £100)	Bonus Payments	Pension related benefits (to nearest £1000)	Total (to nearest £1000)	Total amount of salary and fees	All taxable benefits (to nearest £100)	Bonus Payments	Pension related benefits (to nearest £1000)	Total (to nearest £1000)
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Shaun McNally CBE Chief Executive Chair of LAA Board	95-100	44.2 <sup>1,5</sup>	10-15	19	170-175	90-95	41.7	10-15	74	220-225
James McEwen <sup>4</sup> Director of Finance and Digital (until 08.09.17)	40-45 (100-105 FYE)	_	-	13	55-60	85-90	-	-	91 <sup>7</sup>	175-180
Ruth Wayte <sup>2</sup> Principal Legal Advisor to the LAA	90-95	-	_	34	125-130	95-100	-	-	38	135-140
Adrian Hannell <sup>4</sup> Interim Director of Finance	95-100	-	5-10	37	140-145	45-50 (85-90 FYE)	-	-	18	60-65
Jane Harbottle <sup>3</sup> Head of Civil and Crime Case Management	75-80	13.7³,6	5-10	19	120-125	35–40 (75-80 FYE)	10.8	-	65	115-120
Sally Jones Head of Corporate Centre (until 20.09.17)	30-35 (65-70 FYE)	_	-	13	45-50	10 – 15 (65-70 FYE)	-	-	14 <sup>7</sup>	25-30
David Thomas Deputy Director of Assurance	70-75	-	-	58	125-130	0–5 (70-75 FYE)	-	-	4	5-10
Samantha Milton Head of the Public Defender Service (from 26.10.17)	30-35 (70-75 FYE)	_	-	7	35-40	n/a	n/a	n/a	n/a	n/a
Paul Henson <sup>4</sup> Interim Deputy Director of Finance (from 26.10.17)	30-35 (70-75 FYE)	-	_	12	40-45	n/a	n/a	n/a	n/a	n/a

As Chief Executive, a dual workplace agreement was entered and the costs above illustrate the benefit in kind for all travel to and from dual workplace

Ruth Wayte is remunerated through the Government Legal Department and is employed on a part time basis (0.91 FTE).

Jane Harbottle has a dual workplace agreement, the costs illustrate the benefit in kind for all travel to and from dual workplace locations.

James McEwen, Adrian Hannell and Paul Henson are remunerated through the MoJ Core Department under functional leadership.

<sup>£2.4</sup>k of all taxable benefits were reimbursed in cash.

<sup>£0.4</sup>k of all taxable benefits were reimbursed in cash.

Pension related benefits in 2016-17 have been restated due to a retrospective change in pensionable earnings.

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

	2017-18	2016-17
Band of highest paid Executive Board Member's total remuneration excluding pension benefits (£000)	150-155	145-150
Median total remuneration (£) <sup>1</sup>	21,810	22,250
Ratio <sup>1</sup>	7.0 : 1	6.6 : 1

<sup>1</sup> The median total remuneration and ratio in 2017-18 are impacted by functional leadership, as functional leadership staff are now remunerated through MoJ Core Department. For more information refer to note 1z in the financial statements.

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

The banded remuneration for the highest paid Executive Board Member in the LAA in the financial year 2017-18 was £150k-155k (2016 -17: £145-150k). This was 7.0 times (2016-17: 6.6) the median remuneration of the workforce, which was £21,810 (2016-17: £22,250).

In 2017-18 no staff or contractor (2016-17: 1) recieved banded remuneration in excess of the highest paid Executive Board Member.

Staff remuneration ranged from £10-15k to £140k-145k (2016-17: £10-15k to £185k-190k). These figures exclude any severance pay in respect of compulsory redundancies and voluntary early departures disclosed in the Staff Report on page 55.

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

Table C: Executive Board Members – Employment contracts

Executive Board Members	Contract start date	Term served (years)	Notice period (months)
Shaun McNally CBE	22 October 2012	4	3
Ruth Wayte	7 July 2003	13	3
Adrian Hannell	1 April 2016	2	3
Jane Harbottle	1 April 2016	2	3
David Thomas	16 January 2017	2	3
Samantha Milton	20 March 2017	1	3
Paul Henson	2 January 2017	1	3

# Civil service pension benefits

# Introduction of Alpha

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 within the four sections of the PCSPS, 3 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.

Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in their relevant sections within the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will be enrolled into Alpha sometime between 1 June 2015 and 1 February 2022.

All members who enrolled into Alpha will have their retained PCSPS benefits 'banked'. Members with earlier benefits in one of the final salary sections of the PCSPS will have 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, but note that part of that pension may be payable from different ages).

# **PCSPS Funding**

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.

# **Employee Contribution Rates**

Employee contributions are salary-related and range between 4.60% and 8.05% of pensionable earnings for members of Classic, Premium, Classic Plus, Nuvos and all members of Alpha.

# Pension Scheme Benefits

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

In Premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike Classic, there is no automatic lump sum.

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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 accrues a pension based on his/her 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.

# **Partnership Pension Account**

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: www.civilservicepensionscheme.org.uk

Table D: Executive Board Members – Pension costs for the year ended 31 March 2018

	Total accrued pension payable at pension age at 31 March 2018 and related lump sum £000	Real movement in pension and related lump sum payable at pension age £000	CETV <sup>1</sup> at 31 March 2018 £000	CETV at 31 March 2017 £000	Real increase in CETV £000
Shaun McNally CBE	Pension 40-45 Lump sum 100-105	Pension 0-2.5 Lump sum 0	709	662	3
James McEwen	20-25	0-2.5	235	221 <sup>2</sup>	2
Ruth Wayte	10-15	0-2.5	135	106	17
Adrian Hannell	0-5	0-2.5	40	19	13
Jane Harbottle	20-25	0-2.5	309	283	5
Sally Jones	10-15	0-2.5	82	74 <sup>2</sup>	3
David Thomas	15-20	2.5-5	156	120	23
Samantha Milton	20-25	0-2.5	324	308	2
Paul Henson	0-5	0-2.5	12	7	2

<sup>1</sup> CETV amounts relate to when the Executive Board Member joined the Board.

# Cash Equivalent Transfer Value

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

The pension figures shown relate to accrued benefits for total membership of the scheme and include the value of any pension benefits transferred into the PCSPS from other pension arrangements. CETVs are calculated in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction in benefits resulting from Lifetime Allowance Tax which may be due when the pension benefits are taken.

# Real increase in CETV

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

<sup>2</sup> CETV amounts in 2016-17 have been restated due to retrospective change in pensionable earnings.

# **Non-Executive Board Member**

NEBMs were part time and their role involved a commitment of 20 days per year during 2017-18. They will hold office until the end of the period for which they were appointed.

# **Employment costs – NEBMs**

Table E: NEBMs in post at 31 March 2018 – Employment costs

	2017	7-18	2016-17		
Non-Executive Board Member	Total amount of fees	All taxable benefits <sup>2</sup>	Total amount of fees	All taxable benefits <sup>2</sup>	
	£000	£000	£000	£000	
<b>John Grosvenor</b> ARAC Chair	10.41	0.5³	10.4	0.4	
Eric Gregory	8.0	0.73	8.0	0.5	
Andrew Lockley	8.0	1.43	8.0	1.9	

The remuneration includes £2,400 (2016-17: £2,400) as Chair of the ARAC.

# **Employment contracts – NEBMs**

Table F: NEBMs – Employment contracts

Non-Executive Board Member	Contract start date	Term served (years)
John Grosvenor	1 November 2012	5
Eric Gregory	1 January 2013	5
Andrew Lockley	31 January 2013	5

All NEBMs received three-year contract extensions during 2015-16.

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

<sup>3</sup> For the NEBMs the travel and subsistence expense claims are, under the HMRC rules, subject to Income Tax and National Insurance. This is paid in cash by the LAA.

# Staff report

# **Staff Costs**

Table G: Staff Costs for the year ended 31 March 2018

		2017-18		2016-17			
	Permanently employed staff	Other	Total	Restated permanently employed staff	Restated other	Total	
	£000	£000	£000	£000	£000	£000	
Salaries and wages <sup>2</sup>	36,209	830	37,039	41,540	1,530	43,070	
Social security costs <sup>2</sup>	3,690	-	3,690	4,165	-	4,165	
Other pension costs <sup>2</sup>	6,780	_	6,780	8,017	-	8,017	
	46,679	830	47,509	53,722	1,530	55,252	
Less recoveries in respect of outward secondments <sup>2</sup>	(53)	-	(53)	(142)	-	(142)	
Redundancy <sup>1</sup>	37	-	37	141	-	141	
	46,663	830	47,493	53,721	1,530	55,251	
Non-Executive Board Members (fees and benefits)	29	_	29	29	_	29	
	29		29	29		29	
Total	46,692	830	47,522	53,750	1,530	55,280	

Redundancy costs disclosed in the above table relates to one (2016-17: 3) full time equivalent staff.

The PCSPS is an unfunded multi-employer defined benefit scheme in which the LAA is unable to identify its share of underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2017. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservicepensionscheme.org.uk).

For 2017-18, employers' contribution of £6,605k were payable to the PCSPS (2016-17: £7,826k) at one of four rates in the range 20.0% to 24.5% (2016-17: 20.0%-24.5%) of pensionable pay, based on salary bands. The schemes actuary reviews employer contributions every four years following the full scheme valuation. The contribution rates reflect benefits as they are accrued, not when costs are actually incurred and reflect past experience of the scheme.

Staff costs have reduced from 2016-17 due to the introduction of functional leadership as staff are being remunerated through MoJ Core Department. For more information refer to note 1z in the financial statements.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £175k (2016-17: £191k) were paid to one or more of a panel of appointed stakeholder pension providers.

One person (2016-17: 1) retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to nil (2016-17: £5k).

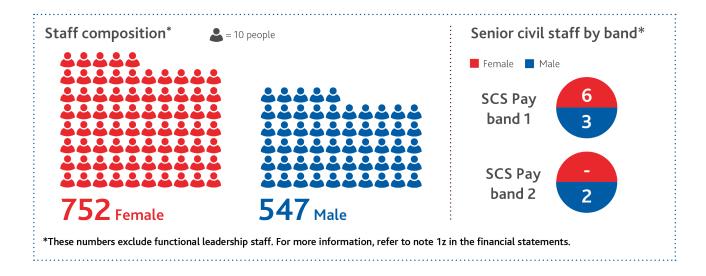
# Staff numbers

Table H: Average number of persons employed

		2017-18		2016-17			
	Permanently employed staff	Other	Total	Restated permanently employed staff <sup>1</sup>	Restated other <sup>1</sup>	Total	
Directly employed <sup>2</sup>	1,203	-	1,203	1,352	-	1,352	
Other <sup>2</sup>	_	20	20	-	33	33	
Staff engaged on capital projects <sup>2</sup>	_	_	-	52	19	71	
Total	1,203	20	1,223	1,404	52	1,456	

<sup>1 2016-17</sup> numbers have been restated due to a change in temporary staff classification.

<sup>2</sup> Average number of persons employed has reduced from 2016-17 due to the introduction of functional leadership. As at 1 April 2017, 158 staff transferred from LAA to MoJ Core Department under functional leadership. For more information refer to note 1z in the financial statements.



# **Diversity and Inclusion**

We aim to attract and retain a representative workforce which understand the needs of the diverse legal aid providers and clients we serve and are able to use this knowledge to improve how we deliver legal aid. The LAA has duties under the Equality Act 2010 to eliminate discrimination, harassment and victimisation, advance equality of opportunity and foster good relations. We ensure this applies to all of the functions across the LAA.

In the 2017-18 Civil Service People Survey our staff rated us 3rd overall in the Civil Service for fairness and inclusion. This is due to the strong engagement of staff on diversity and inclusion.

More than 30 staff volunteer as local diversity champions and others are working together in groups on a range of topics including gender, age, disability and race equality. Local diversity champions have promoted awareness on national campaigns such as International Women's Day and more local interests such as support for carers. We also have Senior Diversity Champions who raise the visibility of issues and promote equality for race, gender, disability, age, carers, LGBT, faith, part-time working and having a child.

During 2017-18 we contributed to the development of the MoJ Inclusion and Diversity Strategy.

Our key work during 2017-18 included:

- Recruiting a pool of volunteers to help ensure that recruitment panels are diverse;
- Face to face unconscious bias workshops for managers;
- Launch of Mental Health Allies Network.

Our Engagement and Inclusion team have identified further actions that have been included in the LAA's People Plan to continue our diversity and inclusion work.

# Employment of disabled persons

During 2017-18, the LAA worked with colleagues across the MoJ to submit a successful application for Disability Confident Leaders accreditation. The LAA has adopted MoJ policies in respect of the employment, training, career development and promotion of people with a disability. These include the MoJ's Disability Policy and Ability Manual. Our people have access to the Civil Service Positive Action Coaching and career development programmes targeted to support people with a disability. LAA staff can also seek advice from the Civil Service Workplace Adjustment Team.

# Sickness absence data

Average working days lost (AWDL) is regularly monitored and reported monthly to the Board. We have continued to improve our AWDL and have made significant improvements compared to last year and against targets.



AWDL

Table J: Reporting of Civil Service and other compensation schemes – exit packages

		2017-18			2016-17			
	Number of compulsory redundancies	Number of other departures	Total number of exit packages	Number of compulsory redundancies		Total number of exit packages		
Exit package cost band								
< £10,000	_	_	_	_	1	1_		
£10,000 - £25,000	_		_	_	_			
£25,000 - £50,000	_	1	1	_	1	1_		
£50,000 - £100,000	_	-	_	_	1	1		
Total number of exit packages by type		1	1		3	3		
Total resource cost (£000)		37	37		141	141		

Redundancy and other departure costs have been agreed 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 of departure. Where the LAA has agreed early retirements, the additional costs are met by the LAA and not by the Civil Service Pension Scheme. Ill health retirement costs are met by the pension scheme and are not included in the table.

# Consultancy costs

Expenditure on consultancy in 2017-18 was £24k (2016-17: £37k).

# Off-payroll engagements

During the year, LAA 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. There have been no instances of non-tax compliant off-payroll engagements as at 31 March 2018. Further details of off-payroll engagements in LAA can be found in the MoJ Annual Report and Accounts.

# Parliamentary accountability disclosures

This section has been subject to audit.

# Losses and special payments

	2017-18		2016	5-17
	Volume	£000	Volume	£000
Write-offs	1,646	2,220	4,229	6,963
Special payments	_	_	10	453
Total value of losses	1,646	2,220	4,239	7,416

In accordance with Managing Public Money, individual losses over £300k are separately disclosed.

There were no supplier balances written off over £300k (2016:17: one supplier balance for £633k).

### Potential loss

The LAA's Counter Fraud team support ongoing investigations into cases of suspected fraud by provider firms on matters that have been referred to police and reported to Action Fraud and the Cabinet Office.

LAA are taking steps to enforce and recover sums paid under these potentially inappropriate claims. If an investigation concludes that amounts have been obtained inappropriately, any amount that cannot be recovered may give rise to a loss in the future Accounts.

# Special payments

There have been no special payments in 2017-18 to report (2016-17: £453k).

# Signed for and on behalf of the Legal Aid Agency

# Shaun McNally CBE

Chief Executive and Accounting Officer Legal Aid Agency 13 June 2018

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

I certify that I have audited the financial statements of Legal Aid Agency for the year ended 31 March 2018 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, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

# In my opinion:

- The financial statements give a true and fair view of the state of the Legal Aid Agency's affairs as at 31 March 2018 and of the net operating costs 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 regularity

In my opinion, in all material respects the income and expenditure 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.

# **Basis of opinions**

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Legal Aid Agency in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

# Responsibilities of the Accounting Officer for the financial statements

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.

# Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Legal Aid Agency's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Legal Aid Agency's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Performance report	Accountability report	Financial repo
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I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit

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.

### Other information

The Chief Executive as Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

# **Opinion on other matters**

In my opinion:

- The parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- In the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report and Accountability Report; and
- The information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements and have been prepared in accordance with the applicable legal requirements.

# 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 Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- The Governance Statement does not reflect compliance with HM Treasury's guidance.

# Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse **Comptroller and Auditor General** 19 June 2018

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

# Financial report



# Financial Statements of the Legal Aid Agency for the year ended 31 March 2018

Accounting policies Notes 2-22

# Legal Aid Agency Statement of Comprehensive Net Expenditure for the year ended 31 March 2018

		2017-18	2016-17
	Note	£000	£000
Rental income		(653)	(682)
Statutory charge interest		(5,807)	(6,307)
Income under the legal aid schemes	6	(168,056)	(188,883)
Total operating income		(174,516)	(195,872)
Staff costs	3	47,522	55,280
Expenditure under the legal aid schemes	4	1,807,201	1,781,140
Depreciation and impairment costs	8 & 9	8,757	10,069
Other operating expenditure	5	31,258	36,025
Total operating cost		1,894,738	1,882,514
Net operating costs for the year		1,720,222	1,686,642
OTHER COMPREHENSIVE EXPENDITURE			
Net gain on revaluation of intangibles		(646)	(2,471)
Net gain on revaluation of property, plant and equipment		(42)	(369)
Total comprehensive expenditure		1,719,534	1,683,802

All income and expenditure are derived from continuing operations.

The notes on pages 70 to 98 form part of these financial statements.

# Legal Aid Agency **Statement of Financial Position** Balance at 31 March 2018

		31 MARCH 2018	31 MARCH 2017
	Note	£000	£000
NON-CURRENT ASSETS			
Intangible assets	8	55,931	56,161
Property, plant and equipment	9	2,798	4,247
Total non-current assets		58,729	60,408
CURRENT ASSETS			
Trade and other receivables	11	149,510	135,918
Cash and cash equivalents	12	26,781	10,894
Total current assets		176,291	146,812
Total assets		235,020	207,220
CURRENT LIABILITIES			
Trade and other payables	13	(188,855)	(196,569)
Provisions for liabilities and charges	15	(643,974)	(626,674)
Total current liabilities		(832,829)	(823,243)
Total assets less current liabilities		(597,809)	(616,023)
NON-CURRENT LIABILITIES			
Trade and other payables	13	(448)	(571)
Provisions for liabilities and charges	15	(671)	(2,063)
Total non-current liabilities		(1,119)	(2,634)
Assets less liabilities		(598,928)	(618,657)
TAXPAYERS' EQUITY			
Revaluation reserve		3,245	3,165
General reserve		(602,173)	(621,822)
Total equity		(598,928)	(618,657)

The notes on pages 70 to 98 form part of these financial statements.

Signed for and on behalf of the Legal Aid Agency

# Shaun McNally CBE

Chief Executive and Accounting Officer Legal Aid Agency 13 June 2018

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Notes 2-22

# Legal Aid Agency Statement of Cash Flows for the year ended 31 March 2018

		2017-18	2016-17
	Note	£000	£000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net operating cost		(1,720,222)	(1,686,642)
Adjustments for notional and non cash transactions		17,994	19,955
Intra-departmental balances settled via general reserves		2,618	23,703
Loss on impairment, revaluation and loss on disposal	5	_	14
Increase in trade and other receivables		(13,592)	(2,140)
Decrease in trade and other payables		(7,837)	(44,724)
Less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		915	15
Movement in provisions		15,908	34,576
Net cash outflow from operating activities		(1,704,216)	1,655,243
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of intangible assets	7	(7,171)	(8,442)
Purchase of property, plant and equipment	7	-	(586)
Net cash outflow from investing activities		(7,171)	(9,028)
CASH FLOWS FROM FINANCING ACTIVITIES			
Supply funding from the Ministry of Justice: revenue		1,720,884	1,649,805
Supply funding from the Ministry of Justice: capital		6,390	9,168
Net cash inflow from financing activities		1,727,274	1,658,973
Net increase/(decrease) in cash and cash equivalents in the year		15,887	(5,298)
Cash and cash equivalents at the beginning of the year		10,894	16,192
Cash and cash equivalents at the end of the year	12	26,781	10,894

The notes on pages 70 to 98 form part of these financial statements.

# Legal Aid Agency Statement of Changes in Taxpayers' Equity for the year ended 31 March 2018

		REVALUATION RESERVE	GENERAL RESERVE	TOTAL
	Note	£000	£000	£000
Balance at 1 April 2016	11010	1,391	(629,172)	(627,781)
CHANGES IN TAXPAYERS' EQUITY FOR 2016-17		·	, , ,	, , ,
Supply funding from the Ministry of Justice: revenue		-	1,649,805	1,649,805
Supply funding from the Ministry of Justice: capital		-	9,168	9,168
Net operating cost for the year		-	(1,686,642)	(1,686,642)
OTHER COMPREHENSIVE EXPENDITURE				
Net gain on revaluation		2,840	-	2,840
NON CASH ADJUSTMENT				
Intra-departmental adjustment		-	23,912	23,912
Notional recharge from the Ministry of Justice	5	-	9,841	9,841
Notional external audit fee	5	-	200	200
MOVEMENT IN RESERVES				
Transfers from revaluation reserve		(1,066)	(1,066)	-
Balance at 31 March 2017		3,165	(621,822)	(618,657)
CHANGES IN TAXPAYERS' EQUITY FOR 2017-18				
Supply funding from the Ministry of Justice: revenue		_	1,720,884	1,720,884
Supply funding from the Ministry of Justice: capital		-	6,390	6,390
Net operating cost for the year		-	(1,720,222)	(1,720,222)
OTHER COMPREHENSIVE EXPENDITURE				
Net gain on revaluation		688	-	688
NON CASH ADJUSTMENT				
Intra-departmental adjustment		_	2,618	2,618
Notional recharge from the Ministry of Justice	5	_	9,181	9,181
Notional external audit fee	5	-	190	190
MOVEMENT IN RESERVES				
Transfers from revaluation reserve		(608)	608	-
Balance at 31 March 2018		3,245	(602,173)	(598,928)

The notes on pages 70 to 98 form part of these financial statements.

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# Legal Aid Agency Notes to the Financial Statements for the year ended 31 March 2018

# Note 1 – Statement of accounting policies

The financial statements have been prepared in accordance with the Government Financial Reporting Manual (FReM) 2017 to 2018, under the direction issued by HM Treasury under the Government Resources and Accounts Act 2000. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Legal Aid Agency (LAA) for the purpose of giving a true and fair view has been selected. The particular policies adopted by the LAA are described below. They have been applied consistently in dealing with items that are considered material to the financial statements.

# a) Basis of preparation

The financial statements are presented in Sterling rounded to the nearest thousand (£000) unless otherwise stated. The financial statements have been prepared under the historical cost convention, modified to account for the revaluation of certain financial assets and liabilities.

# Significant judgements and sources of estimation

The preparation of financial statements requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reporting period.

The estimates and associated assumptions included within the financial statements are based on data held by the LAA, historical experience and various other factors. These are believed to provide a reasonable basis on which the carrying values of assets and liabilities that are not readily apparent from other sources can be estimated.

The key areas in which management make estimations are intangible assets (note 8), trade and other receivables (note 11) and provisions for liabilities and charges (note 15).

# Going concern

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

## b) Change in accounting policy and disclosures

# Change in accounting polices

There have been no changes in accounting policies for the period ending 31 March 2018.

### New and amended standards adopted

There are no new or amended standards that are effective for the financial year beginning on or after 1 April 2017 that have a material impact on the LAA's Accounts.

# New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2017 and not adopted early

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

IFRS 9 may have an impact on the impairment methodology used by LAA to value its outstanding debt however this is not expected to have a material impact on the future accounts.

IFRS 15 is not expected to have any impact on the future accounts of LAA.

IFRS 16 will change the way LAA 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 LAA will not be determined until it has been adopted for use in the public sector by the FReM.

#### c) Income

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

#### Costs recoverable

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

#### Recoveries from damages and statutory charge

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

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### **Crown Court Means Testing**

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

# d) Expenditure

Expenditure comprises sums payable, including the estimated value of work completed by legal aid service providers not yet billed, for services provided to funded clients, refunds of contributions to funded clients, costs awarded to other parties and other costs associated with the provision of legal advice and assistance. Other costs include the cost of staff (including an allocation of pension costs) and the administrative costs of running the LAA.

### e) Cash and cash equivalents

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

### f) Provisions

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

#### Amounts outstanding on funded cases

The LAA recognises its liability to pay for work completed at the reporting date but not yet billed. Estimates for each legal aid scheme, including Civil Representation, Civil Legal Help, Crime Higher and Crime Lower are produced using available data and statistical modelling techniques. The assumptions used by management in producing these estimates are described in financial risk identification and management (note 10) to these financial statements.

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

Under the terms of the Prosecution of Offences Act 1985, acquitted defendants who have applied for legal aid and been found ineligible may, in limited circumstances, obtain an order from the Crown Court to recover their costs. The LAA estimates the value of unbilled costs to arrive at the amount disclosed in the financial statements as a provision. The amount is an estimate of the expenditure required to settle any obligation at the reporting period end date.

## Dilapidations of leasehold property

Provision is made for estimated dilapidation costs on leasehold buildings. The provision has been estimated with reference to the condition and location of the buildings and the requirements of the relevant lease.

#### Legal costs

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

## g) Operating leases

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

## h) Financial instruments

#### Financial assets

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

#### *Initial recognition and measurement*

Receivables are initially recognised at their gross amount adjusted to take account of the time value of money over the period in which they are expected to be collected, based on discount rates published by HM Treasury.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate method, less any impairment and further fair value adjustment. Any interest receivable or loss arising on impairment is recognised in the Statement of Comprehensive Net Expenditure. All receivables are disclosed as due within one year although, in the case of statutory charge debts, the enforcement of the debt may be deferred. Repayment of deferred debts can take longer than one year to recover.

#### Derecognition

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

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#### Financial liabilities

#### *Initial recognition and measurement*

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

# Derecognition

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

# Fair value of financial instruments

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

An analysis of fair values of financial instruments and further details of how they are measured is provided in fair values (note 14) to these financial statements.

### Offsetting of financial instruments

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

#### i) Impairment of financial assets

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

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

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

Where there is objective evidence that an impairment loss exists on loans and receivables, impairment provisions are made to reduce the carrying value of financial assets to the fair value of the estimated future cash flows.

# j) Accounting for Value Added Tax

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

# k) Third party assets

#### Deposit accounts for funded clients

Awards for damages to funded clients are initially payable to the LAA. The LAA places these funds on deposit until the final costs of a case have been calculated, when any excess of contributions and damages is paid to the funded client. These funds are accounted for as assets held on behalf of third parties and are therefore not recognised in the Statement of Financial Position.

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

#### **Crown Court Means Testing**

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

The movement in third party funds is reported in third party assets (note 20) to these financial statements.

#### l) Employee benefits

The LAA accrues for the expected cost of the annual leave entitlement of its employees in accordance with International Accounting Standard (IAS) 19 'Employee Benefits' . The LAA estimates this accrual by calculating the average value of outstanding leave across each pay band which is then used to provide an extrapolated total.

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# m) General reserve

### Supply funding

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

# Intra-departmental adjustment

Intra-departmental adjustments relate to the settlement between the LAA and the MoJ of i) transfers of property, plant and equipment and ii) intercompany purchase and sale transactions via the general reserve.

### n) Contingent liabilities and assets

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

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

## o) Events after the reporting period

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

#### p) Assets under construction

Assets under construction are valued at historical cost within property, plant and equipment and intangible assets, and are not depreciated or amortised. An asset ceases to be classified as an asset under construction when it is ready for use. Its carrying value is then removed from assets under construction and transferred to the respective asset category. Depreciation or amortisation is then charged on the asset in accordance with the stated accounting policy.

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

# q) Intangible assets

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

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

The LAA applies a capitalisation threshold for intangible assets of £10,000.

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

# r) Property, plant and equipment

Property, plant and equipment assets costing more than the capitalisation threshold of £10,000 are treated as capital assets. Where an item costs less than the capitalisation threshold but forms part of an asset or grouped asset, whose total value is greater than the capitalisation level, the item is treated as a capital asset.

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

#### s) Depreciation and amortisation

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

Fixtures and fittings 5 Years
Furniture and equipment 3 to 5 Years
Information technology 3 to 5 Years
Computer software 3 to 15 Years

#### t) Impairment of non financial assets

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

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

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

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

#### u) Revaluation

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

The revalued element, representing the difference between depreciation based on the revalued carrying amount of the asset charged to the Statement of Comprehensive Net Expenditure and depreciation based on the asset's original cost, is transferred from the revaluation reserve to the general reserve each year.

## v) Notional recharges

#### Notional recharges from the Ministry of Justice

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

#### Notional audit fee

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

### w) Statutory charge interest receivable

Under the Legal Aid Act 1974, the Legal Aid Act 1988, the Access to Justice Act 1999, and the LASPO Act 2012, where funded clients have recovered or preserved property rather than obtaining damages, recoverable costs may be secured by a charge against the property. Under the Community Legal Service (Financial) Regulations 2000 as amended by the Community Legal Service (Financial) (Amendment) Regulations 2005 and the Civil Legal Aid (Statutory Charge) Regulations 2013, some of these debts are interest bearing debts which have interest due on the outstanding principal balance at 8.0% per annum.

## x) Pensions

#### Principal Civil Service Pension Scheme

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded defined benefit scheme of which the LAA is unable to recognise its share of underlying assets and liabilities. In accordance with the FReM, the LAA accounts for these as a defined contribution scheme. The LAA recognises contributions payable to defined contribution schemes as an expense in the year in which it is incurred, and the legal or constructive obligation is limited to the amount that it agrees to contribute to the fund.

# y) Segmental reporting

Operating segments are determined in accordance with IFRS 8 'Operating Segments' based on what information is presented for decision making purposes to the LAA Board.

#### z) Functional leadership

In November 2016 the Permanent Secretary of the MoJ, Richard Heaton, set out his plans to introduce functional leadership for eight areas of the business: Finance, Commercial, HR, Estates, Project (space management) Delivery, Analytical Services, Communications and Digital and Technology.

The functional leadership model joins up around 1,000 corporate and professional services and is about building teams with joint strategies and plans so they can better focus and prioritise resources across the MoJ.

For 2017-18, LAA teams affected include LAA internal communications, LAA Digital and LAA Finance. These staff have moved to the MoJ Core Department, impacting the LAA staff costs and headcount.

The impact of functional leadership is shown in note 22 of these financial statements.

Notes 2-22

# Legal Aid Agency Notes to the Financial Statements (continued) for the year ended 31 March 2018

# Note 2 - Segmental analysis

The LAA divides the net operating costs into three segments: Legal Aid Fund, Administration and Central Funds, for the purpose of making operational decisions and reporting to the LAA Board.

The Administration segment reflects the costs of running the LAA.

The Legal Aid Fund is further subdivided into Legal Help, Civil Representation, Crime Lower, and Crime Higher.

- Legal Help represents legal aid in relation to advice and support provided for a legal issue.
- Civil Representation relates to legal aid that covers representation by barristers and solicitors in civil cases that could go to court.
- Crime Lower covers legal representation to those accused of criminal offences at police stations and in Magistrates Courts.
- Crime Higher covers this representation in Crown Courts, Court of Appeal and Supreme Court.

Central Funds reflects the spend on orders made to acquitted defendants who have privately funded their legal representation.

The following table presents the net operating cost by segment for the year ended 31 March 2018:

	2017-18	2016-17
	£000	£000
FUND		
Legal Help	99,088	92,656
Civil Representation	559,510	538,456
Crime Lower	270,887	278,786
Crime Higher	655,462	633,718
CENTRAL FUNDS	53,889	47,985
ADMINISTRATION	81,386	95,041
Net operating costs for the year	1,720,222	1,686,642

# Note 3 – Staff Costs

	2017-18	2017-18	2017-18	2016-17	2016-17	2016-17
	Permanently employed staff	Other	Total	Restated Permanently employed staff	Restated Other	Total
	£000	£000	£000	£000	£000	£000
Salaries and wages <sup>2</sup>	36,209	830	37,039	41,540	1,530	43,070
Social security costs <sup>2</sup>	3,690	-	3,690	4,165	_	4,165
Other pension costs <sup>2</sup>	6,780	-	6,780	8,017	_	8,017
	46,679	830	47,509	53,722	1,530	55,252
Less recoveries in respect of outward secondments <sup>2</sup>	(53)	_	(53)	(142)	-	(142)
Redundancy <sup>1</sup>	37	-	37	141	-	141
	46,663	830	47,493	53,721	1,530	55,251
Non-Executive Board Members (fees and benefits)	29	_	29	29	_	29
	29		29	29		29
Total	46,692	830	47,522	53,750	1,530	55,280

 <sup>1</sup> Redundancy costs disclosed in the table above relate to one (2016-17: three) full time equivalent staff.
 2 Staff costs have reduced from 2016-17 due to the introduction of functional leadership and staff being remunerated through MoJ Core Department. For more information refer to note 1z on page 79 and to note 22 on page 98.

# Note 4 – Expenditure under the legal aid schemes

	2017-18	2016-17
	£000	£000
CIVIL REPRESENTATION		
Solicitors' charges, counsel fees and disbursements (provided in year – note 15)		
Bills submitted in year	718,903	697,137
Provision for work in progress movement	(20,959)	(5,975)
Refund of contributions	567	793
Costs of successful unassisted parties	667	1,091
Debt impairment and write offs	(3,826)	7,094
Discount of debt	548	291
	695,900	700,431
CIVIL LEGAL HELP		
Solicitors' charges, counsel fees and disbursements (provided in year – note 15)		
Bills submitted in year	92,570	97,910
Provision for work in progress movement	758	(8,548)
Direct services	5,244	5,603
Debt impairment and write offs	126	(2,313)
Discount of debt	30	(326)
	98,728	92,326
CRIME LOWER		
Solicitors' charges, counsel fees and disbursements (provided in year – note 15)		
Bills submitted in year	264,813	267,808
Provision for work in progress movement	824	7,072
Direct services and public defender service	3,718	3,572
Debt impairment and write offs	(152)	(1,108)
Discount of debt	(17)	(156)
	269,186	277,188
CRIME HIGHER		
Solicitors' charges, counsel fees and disbursements (provided in year – note 15)		
Bills submitted in year	642,723	612,678
Provision for work in progress movement	32,110	39,456
Direct services and public defender service	291	272
Debt impairment and write offs	12,442	7,776
Discount of debt	1,932	3,029
	689,498	663,211
CENTRAL FUNDS		
Central fund ependiture (provided in year – note 15)		
Defence cost orders awarded in Crown and magistrates' courts	36,923	34,213
Provision for work in progress movement	4,441	2,861
Interpreters costs	12,525	10,910
	53,889	47,984
Total	1,807,201	1,781,140

# Note 5 – Other operating expenditure

	2017-18	2016-17
	£000	£000
Accommodation and related costs	2,147	3,264
Office, IT and service running costs	2,535	14,732
Staff and committee member related costs	937	1,346
Operating leases	2,695	2,666
Legal and professional costs	1,122	1,346
Service level agreements with HMCTS	140	172
Other administration costs	358	2,171
	9,934	25,697
NON-CASH COSTS		
Loss on disposal of assets	-	14
Movement in provision for legal costs and dilapidation	(486)	428
Notional recharge from the MoJ	9,181	9,841
Functional leadership recharge from the MoJ	12,573	-
Notional external audit fee	190	200
Operating lease amortisation	(134)	(155)
	21,324	10,328
Total	31,258	36,025

# Note 6 – Income under the legal aid schemes

	2017-18	2016-17
	£000	£000
CIVIL REPRESENTATION		
Contributions by funded clients	4,795	9,069
Costs recoverable	118,860	134,487
Recoveries from damages and statutory charge	7,103	12,221
	130,758	155,777
CRIMINAL CASES		
Crown Court recoveries	37,298	33,099
Recovery of defence costs	-	7
	37,298	33,106
Total	168,056	188,883

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

	2017-18	2016-17
	£000	£000
Additions of intangible assets (note 8)	6,390	8,582
Decrease/(increase) in capital accrual	781	(140)
Total intangible asset purchases per Statement of Cash Flows	7,171	8,442
Additions of property, plant and equipment (note 9)	-	586
Total property, plant and equipment purchases per Statement of Cash Flows		586

# Note 8 – Intangible assets

	ASSETS UNDER	COMPUTER	
	CONSTRUCTION	SOFTWARE	TOTAL
	£000	£000	£000
Cost at 1 April 2017	18,480	90,337	108,817
Reclassifications	(19,223)	19,117	(106)
Additions	6,390	-	6,390
Transfers to the MoJ	_	-	_
Revaluations	-	1,810	1,810
Cost at 31 March 2018	5,647	111,264	116,911
Amortisation at 1 April 2017	-	52,656	52,656
Reclassifications	-	-	-
Charged in year	-	7,160	7,160
Transfers to the MoJ	-	-	-
Revaluations	-	1,164	1,164
Amortisation at 31 March 2018		60,980	60,980
Net book value at 31 March 2018	5,647	50,284	55,931

The total additions include £356k (2016-17: £1,137k) capital accruals at 31 March 2018.

The revaluation reserve balance of £3,245k in Statement of Taxpayer's Equity includes £2,559k (2016-17: £2,521k) relating to intangible assets at 31 March 2018.

All intangible assets are owned by the LAA.

	ASSETS UNDER CONSTRUCTION	COMPUTER SOFTWARE	TOTAL
	£000	£000	£000
Cost at 1 April 2016	11,235	83,928	95,163
Reclassifications	(1,492)	1,523	31
Additions	8,528	54	8,582
Disposals	-	(76)	(76)
Transfers from the MoJ	209	-	209
Revaluations	-	4,908	4,908
Cost at 31 March 2017	18,480	90,337	108,817
Amortisation at 1 April 2016	-	43,171	43,171
Amortisation at 1 April 2016 Reclassifications	-	43,1/1	43,171
·	-	43,171 - 7,110	43,171 - 7,110
Reclassifications		_	-
Reclassifications Charged in year	-	- 7,110	- 7,110
Reclassifications Charged in year Disposals	-	- 7,110	- 7,110
Reclassifications Charged in year Disposals Transfers from the MoJ	- - -	- 7,110 (62) -	- 7,110 (62) -

# Note 9 – Property, plant and equipment

	ASSETS UNDER CONSTRUCTION	FURNITURE AND EQUIPMENT	INFORMATION TECHNOLOGY	TOTAL
	£000	£000	£000	£000
Cost at 1 April 2017	202	239	19,457	19,898
Reclassifications	106	-	_	106
Additions	_	-	-	-
Revaluations	_	-	383	383
Cost at 31 March 2018	308	239	19,840	20,387
Depreciation at 1 April 2017	-	239	15,412	15,651
Reclassifications	_	-	-	-
Charged in year	_	-	1,597	1,597
Revaluations	_	-	341	341
Depreciation at 31 March 2018		239	17,350	17,589
Net book value at 31 March 2018	308	-	2,490	2,798

The revaluation reserve balance of £3,245k in Statement of Taxpayer's Equity includes £686k (2016-17: £644k) relating to property, plant and equipment at 31 March 2018.

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

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	ASSETS UNDER	<b>FURNITURE AND</b>	INFORMATION	
	CONSTRUCTION	EQUIPMENT	TECHNOLOGY	TOTAL
	£000	£000	£000	
Cost at 1 April 2016	748	208	17,298	18,254
Reclassifications	(788)	-	757	(31)
Additions	242	-	344	586
Transfers from the MoJ	-	31	-	31
Revaluations	-	-	1,058	1,058
Cost at 31 March 2017	202	239	19,457	19,898
Depreciation at 1 April 2016	-	208	11,764	11,972
Reclassifications	-	-	-	-
Charged in year	_	-	2,959	2,959
Transfers from the MoJ	-	31	-	31
Revaluations	-	-	689	689
Depreciation at 31 March 2017		239	15,412	15,651
Net book value at 31 March 2017	202		4,045	4,247

# Note 10 – Financial risk identification and management

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

### Interest rate risk

The LAA is not exposed to significant interest rate risk. At 31 March 2018, £74.3m (2016-17: £77.2m) of statutory charge debt was due, the principal of which carried a fixed rate of interest.

Money received by the LAA on behalf of funded clients is held on deposit until the case is concluded. Interest is paid to funded clients by reference to the London Inter Bank Offered Rate.

Money received by the LAA in relation to CCMT contributions is held until the final judgement and costs of the case have been determined. Refunds of contributions are paid to applicants that have been found not guilty including interest calculated at 2% per annum from the date of contribution receipt by the LAA. The balance of contribution monies is held as cash.

#### **Credit risk**

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

The immediate credit exposure of financial instruments is represented by those instruments that have a net positive fair value by counterparty at 31 March 2018.

The LAA considers its maximum exposure to credit risk to be:

	2017-18	2016-17
	£000	£000
Cash and cash equivalents	26,781	10,894
Trade and other receivables	149,510	135,918
Third party assets	17,455	17,079
	193,746	163,891

Cash and cash equivalents comprise bank balances held with commercial banks, including those administered through the GBS, with original maturities of three months or less. As at 31 March 2018 there were no financial guarantees or third party obligations, other than amounts held as damages on deposit and CCMT, that increased the credit risk of the financial assets set out above.

#### Trade receivables and other current assets

The LAA has an inherent risk within trade receivables and other current assets, as it is not predisposed to straightforward cash collections.

The LAA recognises this risk and mitigates it in the case of statutory charge debts, where enforcement of the debt may be deferred, by securing land charges and using active credit management policies to recover unsecured debts. In some cases the debt collection activities are outsourced to commercial debt collectors.

The size of the risk is reflected in the receivables impairment provision which totals £212.4m (2016-17: £206.0m).

The majority of the LAA's trade and other receivables are the result of a statutory charge, £74.3m (2016-17: £77.2m) out of a total receivables balance after impairment of £149.5m (2016-17: £135.9m).

A high proportion of these are secured on property and settlement is deferred until the property is sold. These, along with other receivables, carry an impairment provision based on expected settlement receipts.

The LAA provides for impairment of receivables based on historical cash collection experience and management assessment of likely recoveries, for each category of debt.

The LAA's impairment model uses historical recovery profiles by debt category to estimate the provision required against debt balances. The impairment model is underpinned by specific assumptions including: the life of debt, income being received against debt evenly throughout the year, and the discount rate is 3.7% nominal and 0.7% real (2016-17: 3.7% nominal and 0.7% real).

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## **Assumptions tested**

The impact of the following reasonable possible alternatives to these assumptions has been considered:

- · cash received evenly throughout the year rather than at the end of the year
- predicted cash receipts used to calculate the impairment provision cashflows +/- 10%
- discount rate +/-1% (this rate is set by HM Treasury)

ASSUMPTIONS TESTED	INCREASE/(DECREASE) IN NET FINANCIAL ASSET		
	Assumption	2017-18 £m	2016-17 £m
Cash received	Evenly through		
	the year	1.1	1.5
Predicted cash receipts	+10%	10.1	10.2
Predicted cash receipts	-10%	(10.7)	(10.1)
Discount rate	+1%	(6.2)	(5.4)
Discount rate	-1%	6.1	6.0

Using these reasonably possible alternative assumptions, the fair value of the financial assets at 31 March 2018 could be higher by £17.3m (2016-17: £17.7m) or lower by £16.9m (2016-17: £15.5m).

Assumption will be reviewed annually and changed if management believe alternative assumptions are a better reflection of the underlying trends.

#### Provisions for liabilities and charges

The LAA uses complex valuation models to estimate the value of unbilled amounts on live cases. Each significant assumption within the provision models has been identified, a reasonable change identified and the impact on the final work in progress balance calculated. Assumptions have been flexed by a percentage that is considered appropriate by management to show the impact on the provision. For each assumption which is being analysed for sensitivity, only that assumption is changed.

Civil representation and crime higher work in progress provisions are the significant work in progress provision balances. The civil representation work in progress provision equals £284.1m (2016-17: £305.0m) and crime higher work in progress provision equals £303.4m (2016-17: £271.4m).

## **Civil Representation Work in Progress Provision**

The civil representation work in progress provision is calculated on a case by case basis using past patterns of activity, with multiple potential duration and cost outcomes. The calculations are segmented between the different expenditure streams and between different milestones in a case's lifecycle.

The impact of the following reasonable alternatives to these inputs has been quantified below:

- transition cost and duration profile using data to March 2017
- billing duration +15 days to -15 days
- dormancy cut-off assumption +180 days

## **Assumptions tested**

ASSUMPTIONS TESTED		(DECREASE)		
	Assumption	£m	Assumption	£m
Transition cost and duration profile	March 2017 profiles	0.8	March 2017 profiles	(0.8)
Billing duration	15 days	5.8	15 days	(4.6)
Dormancy assumption	180 days	23.8	N/A	N/A

The above inputs are case data driven, with an overlay of management judgement, for example choosing the number of year's historical case data to use in creating historical profiles. It should be noted the inherent sensitivity of the Civil Representation work in progress provision is such that relatively small percentage movements in the above inputs could lead to the estimate crystallising at a materially different amount. The asssumptions are reviewed periodically to ensure they remain appropriate.

Using these reasonable alternative assumptions, the fair value of the financial liabilities at 31 March 2018 could be higher by up to £30.4m (2016-17: £59.8m) or lower by up £5.4m (2016-17: £27.3m).

#### **Crime Higher Work in Progress Provision**

The crime higher work in progress provision estimates is calculated by considering case applications and modelling the progress through the legal aid system. A separate calculation is then done to estimate the amount that has already been paid on these cases reducing the work in progress balance.

The impact of the following reasonable alternatives to these inputs has been quantified below:

- Price profiles +10.0% to -10.0%
- Case duration profile +5.0% to -5.0%
- Completion rates +2.5% to -2.5%

## **Assumptions tested**

ASSUMPTIONS TESTED		(DECREASE)		
	Assumption	£m	Assumption	£m
Price profiles	10.0%	26.6	-10.0%	-26.7
Case duration profiles	5.0%	18.9	-5.0%	-9.4
Completion rates	2.5%	23.0	-2.5%	-25.4

Relatively small changes in these inputs could lead to a material difference in the work in progress realised. Assumptions are reviewed annually to ensure they remain appropriate.

Using these reasonable alternative assumptions, the fair value of the financial liabilities at 31 March 2018 could be higher by up to £68.5m or lower by up to £61.5m.

#### Cash

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

# Note 11 – Trade and other receivables

	2017-18	2016-17
	£000	£000
AMOUNTS FALLING DUE WITHIN ONE YEAR:		
Gross debt	361,901	341,939
Impairment provision	(212,391)	(206,021)
Total	149,510	135,918
BY COMPONENT:		
Contributions due from funded clients	7,366	7,090
Costs to be recovered	840	1,005
Damages	112	286
Amounts due from service providers	21,798	17,311
Recovery of defence costs	38,417	29,875
Prepayments and accrued income	692	690
Intra-departmental debtors	4,250	994
Other receivables	1,752	1,500
Statutory charge and interest	74,283	77,167
Total	149,510	135,918

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

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

The net amount of statutory charge debt is:

	2017-18	2016-17
	£000	£000
Statutory charge	48,860	51,933
Interest accrued to date	25,423	25,234
Total	74,283	77,167

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All receivables are disclosed as due within one year although, in the case of statutory charge debts the enforcement of the debt may be deferred. Repayment of deferred debts can take longer than one year to recover.

# Note 12 - Cash and cash equivalents

	2017-18	2016-17
	£000	£000
Balance at 1 April	10,894	16,192
Net change in cash and cash equivalent balances	15,887	(5,298)
Balance at 31 March	26,781	10,894

## The balances at 31 March 2018 were held at:

	2017-18	2016-17
	£000	£000
Government Banking Service	18,431	5,513
Commercial banks	8,350	5,381
Total cash and cash equivalents	26,781	10,894

# Note 13 – Trade payables and other liabilities

	2017-18	2016-17
Amounts falling due within one year:	£000	£000
Amounts due to solicitors, counsel and advice agencies	64,988	71,642
Contribution refunds due to funded clients	1,373	1,572
Accruals and deferred income	99,676	99,696
Other taxation and social security costs	1,620	1,652
Intra-departmental creditors	10,636	13,921
Other payables	10,562	8,086
Total	188,855	196,569

	2017-18	2016-17
Amounts falling due after one year:	£000	£000
Accruals and deferred income	448	571

#### Note 14 – Fair values

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

CARRYING AMOUNTS AND FAIR VALUES	2017-18	2016-17
	£000	£000
Trade and other receivables	149,510	135,918
Cash and cash equivalents	26,781	10,894
Trade payables and other liabilities	(189,303)	(197,140)

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

Trade and other receivables have been discounted over the period from the reporting date to the expected date of collection. This has a material impact on their present value.

To take account of this time value of money effect an estimation technique has been used, discounting all receivable balances over periods commensurate with historical cash flow patterns for each class of receivable at a rate of 3.7% real and 0.7% nominal (2016-17: 3.7% real, 0.7% nominal). The discount rate used is the HM Treasury discount rate. The estimation technique used assumes that the timing of future cash flows will follow historical trends.

#### Fair value hierarchy

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

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

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

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

All of the financial assets and liabilities measured at fair value fall within level 3.

# Note 15 – Provisions for liabilities and charges

	PROVISION FOR AMOUNTS OUTSTANDING ON FUNDED CASES	PROVISION FOR AMOUNTS OUTSTANDING ON PRIVATELY FUNDED CASES (CENTRAL FUNDS)	PROVISION FOR LEGAL COSTS	PROVISION FOR DILAPIDATIONS	PROVISION FOR EARLY DEPARTURE	TOTAL
	£000	£000	£000	£000	£000	£000
At 1 April 2017	617,213	8,055	1,100	2,369	-	628,737
Provided in year	1,731,742	41,364	270	_	-	1,773,376
Provisions utilised in year	(1,719,009)	(36,923)	(615)	(165)	-	(1,756,712)
Provisions not required written back	_	_	(565)	(191)	-	(756)
At 31 March 2018	629,946	12,496	190	2,013		644,645
At 1 April 2016	585,208	5,194	1,136	2,307	316	594,161
Provided in year	1,707,538	37,074	803	62	-	1,745,477
Provisions utilised in year	(1,675,533)	(34,213)	(596)	_	(122)	(1,710,464)
Provisions not required written back	_	_	(243)	_	(194)	(437)
At 31 March 2017	617,213	8,055	1,100	2,369		628,737

	PROVISION FOR AMOUNTS	PROVISION FOR AMOUNTS OUTSTANDING ON PRIVATELY				
	OUTSTANDING	FUNDED CASES	PROVISION	PROVISION	PROVISION	
	ON FUNDED CASES	(CENTRAL FUNDS)	FOR LEGAL COSTS	FOR DILAPIDATIONS	FOR EARLY DEPARTURE	TOTAL
Analysis of expected timing of						
discounted flows	£000	£000	£000	£000	£000	£000
Not later than one year	629,946	12,496	190	1,342	_	643,974
Later than one year and not later than five years	-	_	_	460	-	460
Later than five years	-	-	-	211	_	211
At 31 March 2018	629,946	12,496	190	2,013		644,645

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		PROVISION				
		FOR AMOUNTS				
	PROVISION	OUTSTANDING				
	FOR AMOUNTS	ON PRIVATELY				
	OUTSTANDING	<b>FUNDED CASES</b>	PROVISION	PROVISION	PROVISION	
	ON FUNDED	(CENTRAL	FOR LEGAL	FOR	FOR EARLY	
	CASES	FUNDS)	COSTS	DILAPIDATIONS	DEPARTURE	TOTAL
Analysis of expected timing of						
discounted flows	£000	£000	£000	£000	£000	£000
Not later than one year	617,213	8,055	1,100	306	-	626,674
Later than one year and not				4 700		1 700
later than five years	1	-	-	1,790	-	1,790
Later than five years	-	-	-	273	-	273
At 31 March 2017	617.213	8.055	1.100	2.369		628.737

The LAA estimates the value of unbilled live cases and unbilled defence cost orders each year to arrive at the amounts disclosed within the financial statements as a provision. The amount is an estimate of the expenditure required to settle any obligation at the end of the reporting period. In estimating the provision, the LAA has adopted prudent measurement techniques based on the latest data available which are discussed further in financial risk identification and management (note 10) of these financial statements.

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

Provision is made for legal costs associated with ongoing litigation. Provision is made for estimated dilapidation costs on leasehold buildings. The provision has been estimated with reference to the condition and location of the buildings and the requirements of the relevant lease.

The costs of the dilapidations provisions are expected to be incurred between 2018 and 2026 as each lease expires.

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#### Note 16 – Commitments under leases

### **Operating leases**

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

OBLIGATIONS UNDER OPERATING LEASES COMPRISE:	LAND AND BUILDINGS 2017-18	LAND AND BUILDINGS 2016-17
	£000	£000
Not later than one year	1,485	2,559
Later than one year and not later than five years	2,032	2,821
Later than five years	1,040	794
Total	4,557	6,174

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

## Note 17 – Financial commitments

The total payments to which the LAA are committed is as follows:

	2017-18	2016-17
	£000	£000
Not later than one year	605	1,946
Later than one year and not later than five years	-	725
Present value of obligations	605	2,671

# Note 18 - Contingent assets and liabilities

At 31 March 2018, the LAA were investigating two employment tribunals (2016-17: four) and two ongoing legal challenges (2016-17:one). The values of the contingent liabilities are not disclosed given the sensitive nature of these cases.

The LAA have one contingent asset in relation to costs orders from legal proceedings with a total value of £266k (2016-17: two with a total value of £221k).

# Note 19 - Related party transactions

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

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

During 2017-18 no Board Members or other related parties have undertaken any transactions with the LAA (2016-17: no transactions).

# Note 20 – Third party assets

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

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

	31 MARCH 2017	GROSS INFLOWS	GROSS OUTFLOWS	31 MARCH 2018
	£000	£000	£000	£000
Damages *	6,163	4,588	(4,511)	6,240
Crown Court Means Test **	10,916	21,101	(20,802)	11,215
Total third party assets held as cash	17,079	25,689	(25,313)	17,455

<sup>\*</sup>The LAA receives awarded damages awaiting the final settlement of a case and contribution monies from clients towards legal costs.

# Note 21 - Events after the reporting period

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

There are no subsequent events to report.

<sup>\*\*</sup> The LAA receives contributions towards costs awaiting the final judgement and calculation of the total costs of a case. The outcome of the case will determine whether the third party asset transfers to the LAA or is returned to the third party.

# Note 22 – Impact of functional leadership

As explained in note 1z, functional leadership was introduced on 1 April 2017. For comparative purposes below is a table which shows the Adminstation spend before and after the functional leadership adjustment. The net operating cost does not change as the functional leadership cost are moved from the underlying transaction line to the functional leadership recharge from the MoJ.

	ADMIN SPEND BEFORE ADJUSTMENT	ADJUSTMENT	ADMIN SPEND	
	2017- 18	2017- 18	2017- 18	2016- 17
	£000	£000	£000	£000
Income	(832)	179	(653)	(682)
Administration staff costs <sup>1</sup>	48,511	(6,487)	42,024	49,629
Depreciation and amortisation	8,757	-	8,757	10,069
Other administration costs				
Accommodation and related costs	2,182	(35)	2,147	3,264
Office, IT and service running costs	7,404	(4,869)	2,535	14,732
Staff and committee member related costs	1,127	(190)	937	1,346
Operating leases	2,695	-	2,695	2,666
Legal and professional costs	1,190	(68)	1,122	1,346
Service level agreements with HMCTS	140	-	140	172
Other administration costs	1,461	(1,103)	358	2,171
Non cash transactions				
Loss on disposal of assets	-	-	-	14
Movement in provision for legal costs and dilapidation	(486)	-	(486)	428
Notional recharge from the MoJ	9,181	-	9,181	9,841
Functional leadership recharge from the MoJ	-	12,573	12,573	-
Notional external audit fee	190	-	190	200
Operating lease amortisation	(134)	-	(134)	(155)
Total net operating cost for Administration (refer to note 2)	81,386	-	81,386	95,041
1 Administration staff costs do not match to note 3 'staff costs' as there are staff costs relating to the Legal Aid Fund.				