legal services
COMMISSION

Legal Services Commission
Annual Report and Accounts 2012-13

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Legal Services Commission Annual Report and Accounts 2012-13

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Chair's review

Chair
Sir Bill Callaghan

This is the final Annual Report of the Legal Services Commission (LSC). The LSC was abolished on 1 April 2013 as a result of the Legal Aid, Sentencing and Punishment of Offenders (LASPO) Act 2012. An executive agency of the Ministry of Justice (MoJ) was created to administer legal aid from 1 April 2013 called the Legal Aid Agency (LAA). In its last 12 months the LSC made considerable improvements in administering legal aid and implemented major change programmes. So, far from winding down, the LSC has smoothed the way for the transition to the LAA.

We continued with efforts to improve case working especially the processing of applications and bills in a timely and effective manner. By May 2012 we were hitting all key operational performance indicators and this continued in the months that followed.

As part of our commitment to improving financial stewardship we worked closely with the National Audit Office (NAO) to prepare for our end of year audit. A particular focus was our determined effort to drive down error rates and overpayments to legal aid providers. As a result of this work and our commitment, the accounts have not been qualified this year. I am confident the LAA will build on this work to drive further improvements.

We faced major change programmes that would put a strain on the resources of any organisation. The LSC has successfully met the challenges of Legal Aid Reform (LAR), our civil online working programme, and LAA transition.

As an administrator the LSC managed the reductions in scope that LAR brought as a result of the LASPO Act 2012, and successfully let new contracts. Much effort was put into communicating with providers about what the changes would mean and events were organised at venues across England and Wales in 2012. Examples of affected areas dealt with included immigration and asylum, employment, housing, education, and welfare benefits.

A particular priority area for the Government was mediation, seen as essential for steering family disputes away from the courtroom. The LSC explained to providers the quality standards needed to apply for mediation work and expanded the number of contracts in this area. Of course, quality assurance is not just limited to mediation. Quality standards have to be met for all legal aid work and there are schemes in place to do this. Work has also continued to progress on the development of a quality assurance scheme for advocates. The LSC welcomed the continuing efforts of the regulators in this area.

The LSC also put in place contracts for specialist helpline services from April 2013. This was done to meet the increasing emphasis the Government wants to put on a telephone gateway for members of the public seeking initial advice.

A pilot to test new ways of working with legal aid providers was started in South Tyneside. This will eventually lead to more civil online working for the granting of legal aid and payment of bills. It will save time and money for both providers and the new Agency.

A particular concern of mine as the last Chair of the LSC was that there should be sufficient safeguards to guarantee independence of decision making in the new Agency.

This issue was addressed in the parliamentary process with amendments introduced about fair and judicious decision making. This will ensure that the Director of Legal Aid Casework in the LAA has all the necessary support to make important funding decisions.

I have been impressed by the efforts made by the LSC to smooth the transition to the LAA. There has been widespread recognition in recent years at the huge strides made by the LSC to build a strong external engagement programme with our stakeholders. But this has been matched by an equally strong internal commitment to dialogue with LSC staff and the development of a well trained and high performing workforce.

This has produced positive results and I was pleased to note a significant rise in the number of people taking pride in working for the LSC in the staff engagement survey.

In conclusion I want to express my thanks to our Chief Executive Matthew Coats, the Commissioners and all the staff at the LSC for their hard work.

Bill Callaghan

Sir Bill Callaghan
Chair of the Legal Services Commission to 1 April 2013

20 June 2013

Chief Executive's statement

Chief Executive
Matthew Coats

The creation of the new LAA on 1 April 2013, provided a powerful driver for the organisation in taking the achievements of the LSC forwards.

We have continued to build on the good work that has been carried out by the LSC in recent years. This will provide us with a strong foundation and the potential to keep improving as an organisation as we develop our new identity as an agency. Over this year, we have made significant strides in all of the three key areas we have focused on:

1. Improving case working and financial controls

Over the financial year, we have been hitting our targets month on month on processing times and made huge strides at driving payment errors down below 1% of gross expenditure. We have also increased senior capability in case management to ensure we keep moving forwards and make even further improvements to our processing systems.

In October 2012, the pilot of our new civil finance and payment system and online applications began with providers in the north east. There will be a phased rollout across England and Wales by the end of 2013. Further ahead we are committed to getting all crime work online as well. This dovetails with wider moves in the justice system and the wider civil service to encourage digital working, the 'Digital by Default' agenda.

2. Creating a flexible, dynamic organisation

In my first year in the LSC, I have been immensely impressed by the dedication and hard work of staff across the organisation. They have met the challenges in implementing LAR and achieving the milestones in getting us to the LAA. I feel sure that, through their commitment, we can keep improving the value we gain within the legal aid system.

We are challenging our staff to be as outward looking as possible and to constructively look at how we can work better together to improve the day to day running of the legal aid system. They are responding to the challenge. Our Contract Management and Casework teams have been excellent in exploring new approaches to the way they work. For example, we now have a network of case management "fixers" across the organisation to help contract managers tackle special problems that are proving difficult to resolve.

3. Building stronger relationships with stakeholders

We look forward to continuing our work with stakeholders. There's no doubt that 2013 will be a challenging one both for ourselves and providers. We are all committed to providing a legal aid system which is effective and provides access to justice for those who need it most. This must, however, be done in a way that is efficient and provides the taxpayer with value for money. This has the potential to create tensions. The scope and volume of work is falling as a result of LAR, brought about through the LASPO Act 2012, and we must continue to work together with providers to smooth the process for embedding and delivering the reforms.

That is why I am so pleased with the tremendous effort that has taken place on all sides to deal with these challenges by talking to one another, listening and finding new forums for engagement. We are devoting energy and focus to giving providers the information they need and improving our customer service. At the same time we are working with providers to ensure we can provide the best possible use of public money through the commissioning and delivery of legal aid work.

Our role in becoming an executive agency is to continue working in partnership with representative bodies and the MoJ to jointly develop and implement future reforms, including crime competition and the rollout of digital working across the justice system. I think we all recognise that this is an ongoing process. Change is always on the horizon but working together is the best way in which we can meet it.

It only remains for me to thank the LSC Commissioners and our staff for their hard work over the last year. I would also like to thank Sir Bill Callaghan who has provided me with a great deal of support and advice in carrying out my role as Chief Executive. Sir Bill served as Chair of the LSC for nearly five years and successfully met a number of difficult challenges such as the significant reductions in payment error levels that led to the qualification of the LSC's accounts and the transition from a Non Departmental Public Body (NDPB) to an executive agency.

Matthew Coats
Chief Executive and Accounting Officer of the Legal Services Commission to 1 April 2013 and of the Legal Aid Agency from 1 April 2013

20 June 2013

About the Legal Services Commission

Legal aid – fair access to justice

The LSC was responsible for the operational administration of the legal aid scheme in England and Wales. This chapter sets out how we did this.

Our work is essential to the fair, effective and efficient operation of the civil and criminal justice systems. It is also critical in helping to provide access to legal advice for some of the most vulnerable members of society.

The LSC employed around 1,600 staff based across England and Wales. We were a delivery organisation which commissioned and procured legal aid services from providers (solicitors, barristers and the not for profit sector).

We delivered legal services through two schemes: the Community Legal Service (CLS) and the Criminal Defence Service (CDS). Both schemes had eligibility criteria in relation to the means of the client and the nature of the problem, with certain limited exceptions.

The Community Legal Service

The CLS (known as Civil Legal Aid from April 2013) included contracted solicitors and advice agencies which provided civil and family legal advice and representation.

The LSC managed Community Legal Advice (known as Civil Legal Advice from April 2013), a national advice line for England and Wales which included telephone and internet based services. We also contracted with providers to deliver face to face civil legal aid services across a range of categories such as debt and housing.

Community Legal Service

The Criminal Defence Service

The CDS (known as Criminal Legal Aid from April 2013) provided legal advice and representation to people being investigated or charged with a criminal offence.

The LSC managed the duty solicitor schemes for police stations and magistrates' courts, which ensured that those who needed advice and representation could see a solicitor. We commissioned legal aid in Crown Courts through the litigator and advocate graduated fee schemes, as well as contracted directly with providers through the Complex Crime Unit (CCU).

Criminal Defence Service

We also funded legal aid cases in the higher courts such as the Court of Appeal (CoA) and the Supreme Court of the United Kingdom. The Public Defender Service (PDS) provided criminal defence services directly to the public.

Senior directors and Non Executive Commissioners

Senior directors

As at 31 March 2013, our most senior directors who comprised the LSC Executive Team were:

- Matthew Coats, Chief Executive and Accounting Officer
- Owen Mapley, Director of Finance and Performance
- Hugh Barrett, Director of Legal Aid, Commissioning and Strategy
- Shaun McNally CBE, Director of Case Management
- Ruth Wayte, Director of Legal and Service Development

- Sandra Corrigan, Director of Human Resources and Organisational Development
- Damon Norville, Director of Business Change and Information Technology

Non Executive Commissioners

As at 31 March 2013, our Non Executive Commissioners were:

- Sir Bill Callaghan, Chair of the Commission Board
- Barry Elliott
- Tom Jones OBE
- Julian Lee
- Beryl Seaman CBE JP
- Dr David Wolfe QC

The Commission Board comprised the Chair, Chief Executive, Director of Finance and Performance and the Non Executive Commissioners.

You can find more information on our Executive Team and Non Executive Commissioners, including their register of interests, at http://www.justice.gov.uk/about/lsc

Audit Committee

The purpose of the LSC's Audit Committee was to support the Commission Board and the Accounting Officer in their responsibilities for issues of audit, corporate governance, risk, internal control, assurance, regularity and propriety.

During 2012-13, membership of the LSC's Audit Committee comprised:

- Barry Elliott (Chair)
- Tom Jones OBE
- Julian Lee

Our relationship with Government

The LSC was established under the Access to Justice Act 1999 and was a NDPB sponsored by the MoJ. The Lord Chancellor and Secretary of State for Justice was accountable to Parliament for our activities and performance. In addition, within Wales, the LSC maintained close links with the Welsh Assembly Government, in recognition of the devolved administration.

Following on from the abolition of the LSC, the LAA as of 1 April 2013 has taken on in full the previous responsibilities of the LSC.

Parliamentary scrutiny

Public Accounts Committee (PAC)

There was no direct scrutiny of the LSC undertaken by the PAC in 2012-13. The LSC continued to take action to respond to the Committee's report issued on 20 March 2012 on the MoJ's financial management arrangements. The PAC had recommended that the MoJ should set out a clear plan to reduce errors in legal aid payments. The LSC produced a comprehensive response to this recommendation, details of which are discussed elsewhere in the Annual Report. We continue to make significant progress in reducing the level of errors in legal aid payments and continuously improve our overall control environment.

The Justice Select Committee

The Chief Executive attended a Justice Select Committee evidence session on 13 June 2012, to assist the Committee with their review of the budget and structure of the MoJ. The Committee's report on this review was published on 18 August 2012. This report included findings related to the need for the LSC to continue to pursue online ways of working. The LSC made good progress in this regard with 60% of all our work currently processed online. The 2013-14 Business Plan of the LAA includes plans for continued work in pursuit of greater digitalisation in the future.

Our vision, objectives and priorities for 2012-13

Our vision for the 2012-13 year was:

'We will work with our providers and the justice system to be a respected commissioner and administrator of legal aid.'

Underpinning this vision were our four strategic objectives, each with a number of key milestones and Key Performance Indicators (KPIs). We have measured our progress against these milestones, and our performance in relation to the indicators, throughout the year and reported on a monthly basis to the LSC's Executive Team, the Commission Board and MoJ's Executive Management Committee of the Board (EMCB). The full year position for our strategic objectives, milestones and KPIs is provided on page 21.

Table A below sets out our strategic objectives for 2012-13, as outlined in the LSC's Business Plan, and the priorities we set ourselves for each strategic objective.

Table A: Strategic objectives for 2012-13

Strategic objectives	Milestones
Commissioning and procuring services that provide timely access to quality legal advice for eligible clients	• Preparing for LAR implementation, including; conclude consultation on 2013 Standard Civil Contract Specification; award of specialist telephone and face to face service contracts; delivery of provider training and guidance. • Contribute to the Criminal Justice System (CJS) Efficiency Programme with specific regard to defence engagement strategy. • Publish an action plan setting out steps to move LSC processes to a digital way of working.
Use finances consistently and reliably to achieve value for money	• Successful completion of the Fund Accounting Project. • Continue our Stewardship Programme including recovery of overpayments and debt recovery activity. • Successful transfer of existing LSC pension arrangements to the Principal Civil Service Pension Scheme (PCSPS).
Improve our business by simplifying processes, driving efficiency and eliminating waste	• Commence Integrated Delivery Programme (IDP) implementation. • Support Crown Prosecution Service (CPS) digitalisation once programme has defined scope and deliverables. • Manage the transition of the LSC to an executive agency.
Build capability to ensure we have the right people with the right skills to meet our goals	• Succession plans in place for Senior Civil Service (SCS) roles and all business critical posts across the LSC. • Prepare the business for and launch the LSC's contribution to the Civil Service Staff Engagement Survey. • Transfer of staff to the Executive Agency and MoJ, and where appropriate realising the benefits of sharing services with MoJ. • Improving staff awareness of the MoJ's Transforming Justice (TJ) programme and how the LSC's Change Programme, as well as the work of individual staff members, contributes to this.

The year in focus

This chapter reports on the main developments of the year and how we performed against strategic priorities. It includes the key statistics that relate to the delivery of legal aid through the Community Legal Service and the Criminal Defence Service.

Legal Aid Reform

At around £2 billion per year England and Wales has one of the most expensive legal aid systems in the world. While legal aid is a fundamental part of the justice system, we are committed to not losing sight of the fact it is paid for by taxpayers and resources are not limitless. Last year, we introduced changes to legal aid in response to the Government's consultation, *Proposals for the Reform of Legal Aid in England and Wales November 2010*. This year, we have built on the fee cuts we introduced in October 2011 and February 2012 which are expected to deliver savings of up to £160 million per annum once full annual savings are realised.

We successfully implemented scope and eligibility changes to the legal aid scheme on 1 April 2013, as defined in the LASPO Act 2012. These scope changes will ensure legal aid is targeted towards those most in need of it such as: where domestic violence is involved; where people's life or liberty is at stake; where people are at risk of serious physical harm; and where individuals may be at risk of losing their home. We expect to deliver savings of up to £240 million by 2014-15 from the scope and eligibility changes.

Approximately, 38,000 legal representation cases and 585,000 legal help cases will be withdrawn from the scope of legal aid. We estimate approximately 10,000 cases might make use of publicly funded family mediation, which will divert some cases away from the courts and tribunals.

Stakeholder engagement

Over the past year we have undertaken a comprehensive engagement programme which has strengthened and developed relations with key stakeholders.

More than 2,000 providers booked on to a series of stakeholder events in 2012. These were held before and after the implementation of the LASPO Act 2012. In addition to LAR, these events looked at issues such as digital working, processing updates and tender news. We had similarly positive results with nearly 3,000 providers booked on to our training events in towns and cities across England and Wales. The 28 events, which took place in March and April 2013 complemented a package of online training. Feedback showed 86% now know more about LAR.

We held Bar Reference Group events in partnership with the Bar Council in each circuit in February and March 2013. These allowed us to address the specific needs of advocates. When planning events we draw on our much improved engagement with bodies such as the Law Society and the Bar Council.

We have also expanded our digital e-alert to improve the service offered to advocates, attracting over 2,000 new subscribers.

Other work includes our 'right first time' project with representative bodies to communicate advice on submitting and processing legal aid claims.

We've also engaged with partners through local and national family and criminal justice boards to improve our understanding of local issues.

The stewardship story

The LSC successfully continued its Stewardship Programme in 2012-13. The programme was instigated in 2010 in response to a report from the PAC (February 2010) which raised concerns about the LSC's financial management, and the NAO's qualification of the LSC's accounts for 2008-09 on the grounds of regularity.

Stewardship is designed to ensure we get it right first time, making accurate payments to eligible clients by tackling

The year in focus

the root cause of errors by improving our controls to enable us to provide legal aid effectively as well as efficiently. We have addressed the root causes of irregularity and error by working with our provider base and strengthening the control environment through improving the controls embedded within our systems and key processes. The programme has been a real success and achieved very strong results to date, significantly reducing the level of irregularity whilst striking the right balance in our control environment between control and operational efficiency.

Stewardship is now embedded across all our activities and has made significant improvements to financial management by helping us to embed a strong, effective and balanced control environment and assurance framework. The LSC also developed and implemented a robust and rigorous programme of testing to identify erroneous transactions and to recover any overpayments. The methodology that underpins this programme is statistically robust and the results feed into all parts of the business to further embed control improvements and to allow us to independently measure fund risk. These measures have evidenced a continuous reduction in the level of reported error since 2009-10 as set out in the graph below.

We are delighted that this has been recognised by the NAO with the removal of the regularity qualification on the LSC's Fund accounts. However, there is still more to do as we continue to drive down the level of inaccurate and ineligible payments within the Agency.

Stewardship is a key part of our continuing activities under the LAA, remaining focused on tackling the remaining irregularity by continuing to work collaboratively with our providers and, where appropriate, introducing new and stronger controls over legal aid eligibility and payment accuracy in addition to seeking to recover any payments which are made in error. As a direct consequence of stewardship, we fully intend on achieving a further significant reduction in the level of irregularity during 2013-14.

Systems and better technology

The commencement of implementation of the IDP was one of the main focuses for the LSC in 2012. This programme allows providers to transact with the LSC online to manage civil certificated work.

Through a Provider User Interface (PUI), providers will input information directly into our Client and Cost Management System (CCMS). This will include the ability to scan evidence (such as bank statements) associated with the case, but also the option to post to a single postal address (where it will be scanned and added to the system).

Caseworkers will be able to access the CCMS from any regional office to make decisions on applications and bills. The system will also be used to make payments, manage debt, report on fund spend and produce accounts through a new general ledger.

Clients will also see a change; the new system will allow them to make direct debit payments, use internet and telephone banking services and make cheque and cash contributions to their case, or pay off debts.

In 2012-13 the following phases of the programme were implemented:

- The PUI interface, where 45 pilot providers are currently processing their bills.
- CCMS, where the LSC are able to process and manage provider information and work.
- Support functions such as the payments system and the general ledger.

The remaining phases to be implemented in 2013-14 include:

- Migration of client cases and information from the legacy IT system into CCMS for the pilot providers.
- All functionality relating to debt.
- National rollout of CCMS to all civil providers, including the migration of their cases from the legacy IT system.

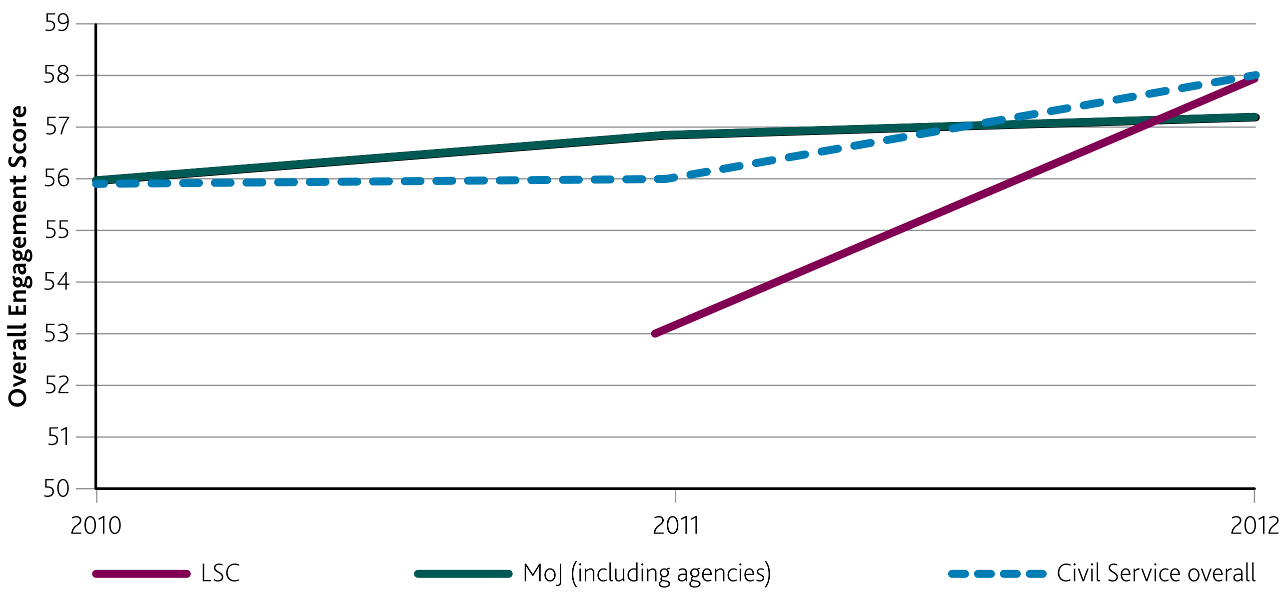
Employee engagement

As a people based organisation, the engagement of staff and ability to motivate the organisation as a whole to deliver our objectives was a key area of focus for all of our senior leaders.

In 2012-13 the LSC participated for the second time in the Civil Service Staff Engagement Survey. The results of the survey showed that we had made significant improvements in the levels of staff engagement. 76% of staff completed the survey and the results were used to formulate national and local action plans which will be delivered during 2013-14 by the LAA. Progress against these plans will be reviewed on a regular basis throughout the year.

Our staff engagement scores went from 53% at the start of the year to 58% representing a significant increase in the way in which staff are engaged and motivated.

Staff Engagement within MoJ 2010-12



The year in focus

Two way communication in this period of transformation and delivery of a number of change programmes was vital. The Executive Team and Senior Leadership Group (consisting of senior managers in the LSC) kept staff updated via face to face briefings, monthly web chats and a regular update from the Chief Executive. The Chief Executive continued to send a personal message to all staff on a weekly basis in which he shared his thoughts about relevant issues and asked staff for their feedback. The Executive Team continued their programme of twice yearly visits to each of the LSC's offices which, in addition to updating and listening to staff, provided an opportunity for senior leaders to demonstrate their commitment to personal development and providing open and transparent communication.

Managers held regular team meetings to communicate LSC objectives to all staff, where everyone could ask questions and give their views about organisational issues. These meetings include discussion of the 'bite size', a short regular summary of our main corporate news. In addition, line managers held regular one to one meetings with staff to discuss performance and development. These one to one meetings supplemented the six monthly appraisal discussions where clear goals and targets are set, career aspirations discussed and development plans put in place. This will continue to be prioritised by the LAA during 2013-14.

In 2012-13, the LSC worked with staff to agree the formal adoption of the values expected of all civil servants as set out in the *Civil Service Code* and the features that we expect all staff to demonstrate to create an open, outward looking and positive culture to underpin the delivery of the LAA's organisational purpose. These were formally launched on 1 April 2013 when the LAA assumed the responsibilities of the LSC.

In advance of the formation of the LAA, the LSC formally consulted with staff representatives on issues and changes to the terms and conditions of employment, through the Joint Consultative and Negotiating Committee (JCNC). JCNC membership includes representatives of management, and elected members of the two unions that represent our staff (GMB and the First Division Association). In addition, the LSC also met regularly with our recognised trade unions to discuss issues relating to organisational change.

Equality and diversity

The LSC was committed to ensuring that we have due regard to equality in our delivery of legal aid and value the diversity of our staff.

During 2011-12, steps were taken to improve the information that was collected about legal aid clients, to have due regard to equality in implementing reforms to legal aid and identify improvements that we can take to make our organisational culture more inclusive. This work will be continued by the LAA in 2013-14.

Equality and diversity information, including the LSC's Equality and Diversity Workforce report can be found on the Justice website at: https://www.gov.uk/government/publications/corporate-equality-information

Employment of disabled persons

LSC's policy in respect of the employment, training, career development and promotion of disabled persons was included within our Equal Opportunity policy.

Sickness absence data

As part of our people scorecard KPI (see page 21), we had a target for annual sickness absence per full time equivalent of no more than 7.66 days. Performance against this target was 7.03 days per person.

Leadership and succession planning

We reviewed capability within the organisation, starting with the Executive Team. In May 2012, we examined the succession planning position and identified any business critical roles. We established those roles that could be filled internally or from within the MoJ family; those roles that could only be filled by the wider civil service and those roles requiring external recruitment. By the end of June 2012 we had put in place a talent management grid to plot all SCS and business critical roles and had succession plans in place. We recruited two SCS roles on promotion from the civil service, one externally and one internally from the organisation using this succession plan.

As part of this succession planning we identified a need to up skill management capability across the LSC. We have designed three accelerated leadership and management development programmes on a blended learning basis, using civil service learning interventions, coaching and mentoring. These are aimed at three levels of management; those with potential to be first line managers, those with potential to be senior managers and those wanting to move to SCS level.

Environment, social and community issues

The LSC continued to build stronger working relationships with the MoJ's Sustainable Development delivery team during 2012-13. This process enabled the identification of energy solutions to longer term centralised energy management. Additionally, best practice carbon management tools and strategies that the MoJ has implemented successfully across its estate were adopted by the LSC and will continue to be implemented by the LAA in 2013-14.

Further details are set out in the LSC Sustainability report on page 30.

Charitable donations

During 2012-13, the LSC made no charitable donations (2011-12: nil).

Political donations

During 2012-13, the LSC made no political donations (2011-12: nil).

Financial instruments

As the cash requirements of the LSC are met through the estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size. Please refer to note 23 of the administration's accounts and note 15 of the CLSF and CDS accounts for detail on financial instruments and associated risk.

Events after the reporting period

LSC closure and creation of the LAA

The functions, property, rights and liabilities of the LSC were transferred in full to the Secretary of State for the MoJ on 1 April 2013 and from this date, the Department's Executive Agency, the LAA assumed responsibility.

LSC No. 3 and No. 4 Pension Schemes

Under the powers of the LASPO Act 2012, the Lord Chancellor made a Transfer Scheme which included changes to the Trust Deed and Rules of the No.4 Pension Scheme. This provided the LSC Pension Scheme with the support of a Crown Guarantee sponsored by the Secretary of State. The Act also enabled the No.3 Pension Scheme to merge with the No.4 Pension Scheme.

From 1 April 2013, the MoJ became the new sponsoring employer of the No.4 Pension Scheme on behalf of the Secretary of State. The LSC No.4 Pension Scheme closed to future contributions and all LSC employees were automatically enrolled into the Premium Scheme of the Principal Civil Service Pension Scheme (PCSPS).

The members of the No.4 Pension Scheme who remained in the Premium Scheme have the option of transferring their accrued entitlement to the PCSPS under a bulk transfer agreement or to become preserved members of the LSC Pension Scheme at a vesting date.

Policy and practice on payment of creditors

Fund creditor days as at 31 March 2013 were 25.9 days (2011-12: 28.7 days). A significant proportion of the LSC's payments were made on a monthly basis and were a proxy for the claims being submitted. These payments were largely based on historical claims and payment data which was updated on a monthly basis as claims were submitted.

Bill payments for legal aid take two forms: fixed or standard fees and non-standard fees. Standard fees were paid through the LSC's online system in a monthly process and formed part of the providers' standard monthly payments. Non-standard bills from a legal aid provider are only eligible for payment once they have been assessed. Performance against internal targets for the timely payment of non-standard bills is set out in Table B on the following page.

The year in focus

Table B: Bills paid and performance

Bills paid – 2012-13 target measures	Targets 2012-13	Performance 2012-13	Bills paid – 2011-12 target measures	Targets 2011-12	Performance 2011-12
Civil bills – Taxed, assessed, POA's, Family Graduated Fee & Family Advocacy Scheme bills	30 days (90%)	98%	Civil bills – Taxed, assessed, POA's, Family Graduated Fee	30 days (90%)	91%
Criminal non standard fee and Investigative exceptional cases	30 days (90%)	99%	Criminal non standard fee Investigate exceptional cases	20 days (90%) 5 days (90%)	88% 81%
Advocates Graduated Fee Service & Litigator Graduated Fee Service fee claims	30 days (90%)	94%	AGFS & LGFS fee claims	40 days (95%)	78%

The LSC achieved the processing KPI consistently during 2012 -13. In 2012-13 the LSC was regularly meeting and exceeding its published service standards, with providers now experiencing quicker responses to their applications and bills. In addition to improving processing times, the LSC continued to strengthen its processes to improve the quality of the processing undertaken, and reduce caseworker errors.

The LAA will continue to monitor performance against casework targets and service standards throughout 2013-14 and will work to further improve processes and reduce payment error rates.

The LSC aimed to promptly pay all properly authorised invoices from the administration budget in accordance with the terms of contracts or within 30 days. In 2012-13, 93% (2011-12: 93%) of properly authorised administrative invoices were paid within 30 days. The LAA will monitor payment performance during 2013-14 to improve this result. The payment performance figures are unaudited.

Research and development

Research in the civil and criminal justice fields was conducted by the Legal Services Research Centre (LSRC), our strategic research division. This research helped us to formulate our plans and develop services to meet the needs of users. At the end of March 2013, the LSRC was closed as part of the transition of the LSC to the LAA and all research to inform policy development and programme evaluations will now be provided from within the MoJ.

Key facts and figures

This section includes the key statistics that relate to the delivery of legal aid through CLS and CDS.

We present statistical information in a summary format. More detailed statistical analysis can be found in the S*tatistical Information 2012-13* document on our website at www.justice.gov.uk/publications/corporate-reports/legal-services-commission.

Expenditure and acts of assistance 2012-13

	Resource spend £m	Acts of assistance 000s
CLS Licensed Work (gross)[1]	965.1	143.7
Less operating receipts	(198.9)	-
Interest receivable/received etc.	(8.6)	-
Civil Representation (net)	757.6	-
Legal Help[2]	184.0	781.5
CLS total (net)	**941.6**	**925.2**
Crime Lower (gross)[3]	384.5	1,235.2
Crime Higher (gross)[3]	632.2	122.5
Less operating receipts, etc.	(41.6)	-
CDS total (net)	**975.1**	**1,357.7**
CLS and CDS total (net)	**1,916.7**	**2,282.9**
LSC Administration excluding Her Majesty's' Courts and Tribunals Service (HMCTS) fees	101.3	-
LSC Administration HMCTS fees only	9.9	-
LSC Administration total	**111.2**	-

1 Civil Representation acts of assistance include granted Civil Representation applications and family mediation work.

2 Legal Help acts of assistance are based on new matter starts, the details of which can be found in the CLS2 table in the *statistical information* pack available on the LSC website.

3 Crime acts of assistance are based on claim volumes; excluding second claims for deferred sentencing and solicitors' court duty sessions. Starts are not used as the LSC does not have access to complete information on the number of acts of assistance per claim.

Volume: We funded 2.3 million legal aid acts of assistance	**Value:** We spent £1.9 billion in total legal aid expenditure and £111.2 million in costs of administering the scheme.	
All Suppliers: As at 31 March 2013, we held the following contracts:	**Civil providers:** • 1,881 Solicitor firms • 9 Community legal advice centres • 9 Telephone advice providers	**Crime providers:** • 1,592 Solicitor firms • 4 Public defender service offices • 3 Telephone advice providers

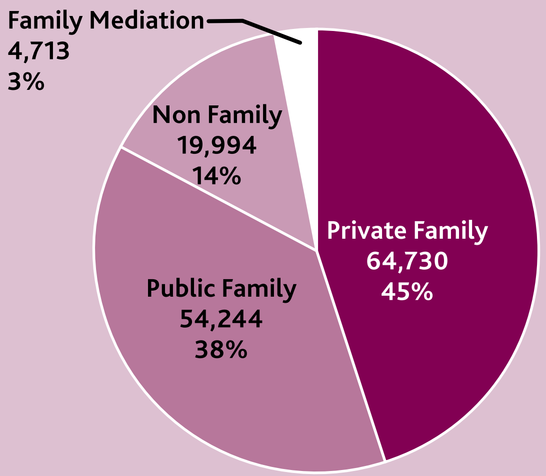
The year in focus

Community Legal Service

The CLS provides civil legal help and representation via Community Legal Advice (CLA) as well as through solicitors and not for profit agencies. Where face to face advice, assistance or representation in proceedings is needed, services are delivered in two main ways:

Civil Representation	Legal Help
This covers all areas of civil work where a solicitor or barrister is required to represent the applicant.	Legal Help covers the initial advice and help with a civil law issue. It also includes funding for immigration asylum and nationality issues.

Number of Civil Representation acts of assistance



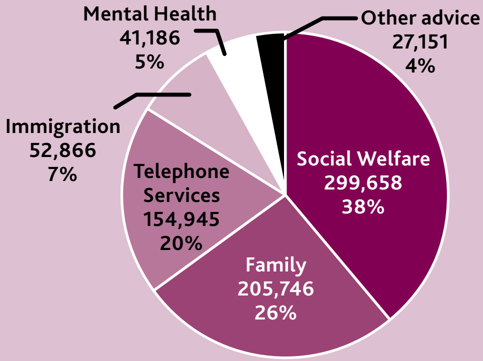
Private Family: Private law cases are those concerning relationships between individuals. Examples are financial issues following divorce, residence or contact of children and domestic violence.

Public Family: Public law cases are generally brought by local authorities. These include care and supervision orders, emergency protection orders and contact with a child in care.

Non Family: This covers all other areas of Civil Representation from actions against the Police through to welfare benefits.

Family Mediation: This includes all family mediation scheme matters.

Number of Legal Help acts of assistance



Social Welfare: Covers advice for community care, debt, employment, housing and welfare benefits matters.

Family: Help and advice in family disputes.

Telephone operator services: Initial help provided by the telephone operator services.

Mental Health: Mental health advice.

Immigration: Including asylum and nationality matters.

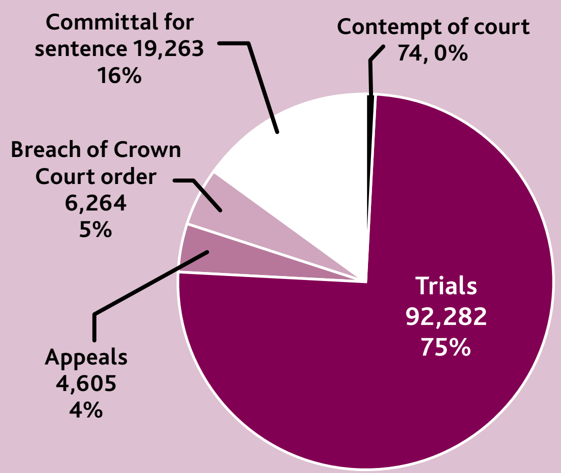
Other advice: For example actions against the Police and clinical negligence.

Criminal Defence Service

Forming part of the wider criminal justice system, the CDS ensures access to advice, assistance and representation for all eligible individuals suspected or accused of a crime.

Crime Higher	Crime Lower
Crime Higher primarily covers legal advice and representation at the Crown Court or higher.	Crime Lower primarily covers legal advice at police stations, magistrates' courts and advice to people already convicted of crimes.

Number of Crime Higher acts of assistance



Trials: Trials at the Crown Court.

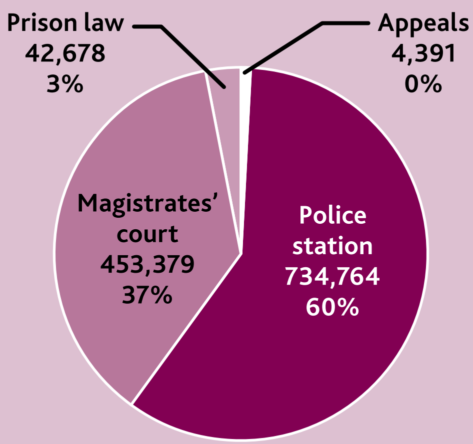
Committal for sentence: Convictions made at magistrates' courts, referred to the Crown Court for sentencing.

Breach of Crown Court order: Breach of a Crown Court order. Examples of these orders are probation, community orders and suspended sentences.

Appeals: Appeals against conviction or sentencing.

Contempt of court: Contempt of court is a court order which in the context of a court trial or hearing, declares a person or organisation to have disobeyed or been disrespectful of the court's authority.

Number of Crime Lower acts of assistance



Police station: This includes advice given at police stations.

Magistrates' court: This covers representation at the magistrates' court.

Prison law: This covers advice given to those already convicted.

Appeals: Advice and assistance and in matters relating to appeals.

Our performance

As part of the LSC's final business planning cycle, and as published in the LSC's final Business Plan for the 2012-13 financial year, we set a series of strategic objectives and delivery milestones designed to contribute to the delivery of our vision and set our strategic direction for the year. These were underpinned by a series of KPIs monitored to control and manage the LSC, our operations and our performance during the course of the year.

Performance and progress has been analysed and reported on a weekly and monthly basis to allow local and senior management, in addition to the Commission Board, to assess whether we were on track to meet our objectives and to successfully deliver our vision of, *"working with our providers and the justice system to be a respected commissioner and administrator of legal aid."*

Business plan strategic objectives and delivery milestones

The delivery milestones in the Business Plan 2012-13 linked directly to our four strategic objectives. During 2012-13, we focused on delivering each and every milestone, which ensured that the LSC met its strategic objectives during the course of the year.

Key for strategic objective, delivery milestone and KPI reporting

Achieved

Largely achieved

Partially achieved

Not achieved

Please note that the results set out in the Tables C1 and C2 have not been subject to audit by the NAO.

Table C1: 2012-13 Delivery milestones

Strategic objective	Delivery milestones	Status
Commissioning and procuring services that provide timely access to quality legal advice for eligible clients	The milestones for this objective concentrated on enabling the LSC to implement the changes brought about by the LASPO Act, 2012. The Act brought with it significant changes to legal aid scope and eligibility to ensure that legal aid is targeted to those who need it most, for the most serious cases in which legal advice or representation is justified. To ensure both the LSC and the provider base were fully prepared a number of LAR milestones were put into place and achieved during the year. The successes began in June with the consultation on what this relationship would look like via the 2013 Standard Civil Contract Specification, followed by tendering exercises to award specialist telephone and face to face contracts and concluded with a period of intense communication, training and internal restructuring. LAR was successfully implemented on 1 April 2013. All the milestones within this strategic objective were met during the course of the year.	✓
Use finances consistently and reliably to achieve value for money	During 2012-13 the LSC continued to increase and optimise control of its finances and strengthened assurance that legal aid was only paid to those eligible, accurately and on a timely basis. Significant improvements were made to its overall financial management capability, and this continues as a current area of focus and improvement. Early in the period, the LSC laid the 2011-12 Annual Report and Accounts pre-recess, the accounts had an unqualified true and fair opinion with the removal of the 2010-11 debt qualification. The accounts were however qualified by the NAO on the grounds of material irregular payments made to our providers. In 2012-13, the LSC continued to deliver its Stewardship Programme designed to improve its systems, processes and controls in granting legal aid and in paying providers. As a result of this work the overall level of net error has reduced to £14.5 million in 2012-13, a reduction of approximately 60% on the previous year. The Fund Accounting Project delivered a new payment engine and general ledger system in the autumn to provide greater control and scrutiny of our provider payments. By the end of 2012, the LSC north west offices of Liverpool and Manchester were relocated into shared MoJ buildings improving the operating efficiency of the LSC and wider MoJ estate. Finally, in preparation for executive agency transition the existing LSC pension arrangements were successfully transferred to the PCSPS. All the milestones within this strategic objective were met during the course of the year.	✓

Our performance

Table C1: 2012-13 Delivery milestones *(continued)*

Strategic objective	Delivery milestones	Status
Improve our business by simplifying processes, driving efficiency and eliminating waste	Key to improving LSC business processes was supporting the CJS Digitalisation Programme for 2012-13 and the programme's steps towards a digital way of working. In particular the move to online working with our providers and the launch of a new IT system, as part of the IDP, to grant civil legal aid, pay bills and recover debt electronically was a key milestone achieved during the year. Further IDP related milestones were also met to commence in the pilot within the LSC Case Management teams and agree the detailed plan for the program roll out following the conclusion of the pilot. The creation of the LAA on 1 April 2013 brought with it a major contribution to efficiency and waste elimination through savings to the LSC's and LAA's administration budgets realised through utilisation of MoJ services including IT, HR shared services, procurement and facilities management. All the milestones within this strategic objective were met during the course of the year.	✓
Build capability to ensure we have the right people with the right skills to meet our goals	The LSC could not become a respected commissioner and administrator of legal aid without the capacity and capability to deliver. A number of milestones were set and completed preparing LSC staff for the challenges of a busy period of change, including the creation of the Executive Agency. Succession plans for all SCS roles and all business critical posts were made a priority and put in place within the first six months. The LSC staff survey was completed at the end of the year with an engagement index of 58%, a 5% increase compared to 2011-12 and with significant improvements in all elements. This was in part due to a number of milestone activities to prepare the business for the launch of the survey. The smooth transition to an executive agency on 1 April 2013 was achieved, including the realisation of the benefits of sharing services with MoJ. We also raised staff's awareness of the MoJ's Transforming Justice Programme and how the LSC and individual's work contributed to this. All the milestones within this strategic objective were met during the course of the year.	✓

Key Performance Indicators (KPIs)

Six KPIs were set for 2012-13 to monitor progress and performance. Throughout the year the results were reported to the Executive Team, the Commission Board and the MoJ Executive Management Committee of the Board (EMCB). Progress was also cascaded to all LSC staff via monthly briefings and the results can be accessed by staff on our intranet site.

For 2012-13, we achieved all six KPIs, and Table C2 provides further information on our KPIs.

The KPIs have been subject to an internal audit by PwC which did not identify any issues with the accuracy of data reported against the LSC KPI protocols.

Table C2: 2012-13 KPIs

Strategic objective	KPI heading	KPI descriptor	Status
Commissioning and procuring services that provide timely access to quality legal advice for eligible clients	KPI 1: Coverage	• 95% of police station duty calls accepted within 30 minutes. • 98% CLS coverage per procurement area.	✔
Use finances consistently and reliably to achieve value for money	KPI 2: Deliver the programme of work and savings initiatives which will enable us to live within the forecast Fund budget for the 2012-13 financial year	• Measured year to date spend per month against the forecast agreed and the budgets delegated by the MoJ.	✔
	KPI 3: Implement the appropriate efficiency measures so that we can live within the Administration budget for the 2012-13 financial year	• Covered Administration near cash spend, and included the cash spend on the use of provisions. Non cash and capital expenditure were excluded. CLS Direct and PDS expenditure formed part of the Fund, and was out of scope for this KPI.	✔
Improve our business by simplifying processes, driving efficiency and eliminating waste	KPI 4: Legal aid processing times and quality measures	• Includes a number of measures that provided an indication of the customer experience based on the quality of service and speed of decision. • To meet the overall KPI specified performance levels must have been achieved at year end based on the whole 12 month's performance.	✔
	KPI 5: Customer service (complaints)	• To track and monitor performance against customer service standards and statutory deadlines for responses under the Freedom of Information (FOI) and Data Protection Acts.	✔
Build capability to ensure we have the right people with the right skills to meet our goals	KPI 6: People and performance management	• Sickness absence days to be an average of 7.66 or fewer per person for the year. • 99% of staff to have a Performance Development Review (PDR).	✔

Financial reports 2012-13

Contents

Management commentary

This chapter sets out how senior management have performed their duties during the year; it also provides some useful commentary to support the financial statements and our performance during the past year and the year ahead.

The LSC was a NDPB established under the Access to Justice Act 1999 and sponsored by the MoJ. The LSC was responsible for the provision of legal aid in England and Wales, through the CLS and the CDS.

A description of the LSC's main role, activities and performance has been set out in the earlier chapters of this document, including the Annual Report.

As a consequence of the LASPO Act 2012, the LSC ceased to exist. It's functions and responsibilities transferred in full to the new Executive Agency (EA), the LAA, as of 1 April 2013.

Risk and uncertainty

The LSC had a comprehensive risk management strategy which enabled the organisation to identify, measure, monitor and mitigate risks in an ongoing manner, which could have prevented the delivery of legal aid. The risk management strategy incorporated best practice, and was aligned to that of the MoJ. Risks were managed at all levels of the organisation and escalated as appropriate to a corporate risk register which was monitored by the LSC's Executive Team, and discussed with the Commission Board as part of routine monthly performance management discussions.

The main focus of risk management was around risks to the delivery of the LSC's core business: processing legal aid applications and assessing and paying bills; improving the capability of the organisation's people, processes and systems; and building and maintaining strong partnerships with its key stakeholders. Further information on risks is set out in the Governance statement.

As outlined above, the responsibilities of the LSC were taken on by the LAA from 1 April 2013. The LAA continues this approach to identifying, monitoring and mitigating risks in the delivery of legal aid.

Key achievements in 2012-13

Key facts and figures

Points to highlight include:

- Total acts of assistance and spend – The LSC continued to fund advice, assistance and representation for eligible individuals across England and Wales by funding 2.3 million acts of assistance overall (CLS and CDS) [2011-12: 2.5 million]. Total net expenditure was £1,916.7 million [2011-12: £2,078.4 million].
- Number of providers – As at 31 March 2013 the LSC held 1,899 civil and 1,599 crime contracts [March 2012: 1,976 civil and 1,640 crime contracts].
- CLS – The LSC funded 0.93 million CLS acts of assistance overall [2011-12: 1.09 million, a 15% decrease in the year]. CLS net expenditure was £941.6 million [2011-12: £977.7 million].
- CDS – The LSC funded 1.36 million acts of assistance [2011-12: 1.39 million, a 2% decrease in the year]. CDS spend was £975.1 million [2011-12: £1,100.7 million].
- Administration – Net expenditure was £111.2 million [2011-12: £82.1 million].
- KPIs – This year, the LSC fully achieved all 6 KPIs [2011-12: achieved 4, largely achieved 1, partially achieved 1 and missed 1].

Financial reports 2012-13

Management commentary *(continued)*

Control improvements

The LSC continued to make procedural and control improvements across all that it does.

In 2012-13, the LSC enhanced its Financial Stewardship Programme, through which it continued to improve its systems, processes and controls in granting legal aid for clients and in paying legal aid providers. The Programme produced a comprehensive action plan for the year. Progress against the plan was overseen monthly by the Financial Stewardship Steering Group made up of senior LSC managers from all parts of the organisation. The Group has provided regular updates to the LSC's Executive Team and the Commission Board. Stewardship improvements will continue to be pursued by the LAA.

In Civil Representation the LSC reviewed all its internal guidance and introduced a new checklist for all staff assessing the eligibility of clients. Further improvements have been made to cross office quality control testing to further reduce potential errors made by LSC staff. This work covers merits testing, means assessments as well as the final bills paid. The LSC has also made significant improvements in the processing of very high cost civil bills.

Significant progress has continued in the implementation of IDP which is designed to automate the processing of civil representation cases. This will allow us to automate and standardise a large number of financial and operational control processes increasing efficiency and effectiveness.

Fraud prevention improvements

Throughout 2012-13, the LSC continued to develop its counter fraud capability through the implementation of its Counter Fraud Strategy. A detailed fraud risk assessment was carried out, which helped the LSC to better understand the risks of fraud that it faced and how these could be mitigated. This resulted in a number of control reviews and improvements, reducing the risk of fraud. This work will be continued by the LAA throughout 2013-14.

Significant work was carried out to increase the joint working between the LSC, other government departments, regulatory bodies and some private sector organisations. A review of the joint working arrangements introduced with the Department for Work and Pensions (DWP) was completed during 2012-13, demonstrating savings to the taxpayer of £2.5 million and 20 prosecutions since 2009. Close working relationships were developed with the Solicitors Regulation Authority, the Serious Fraud Office and a joint working pilot was started with Birmingham City Council.

The LAA continues the work of the LSC to develop its capability to deliver successful investigations and prosecutions for acts of fraud against legal aid. Counter fraud activity resulted in the recovery or preservation of approximately £1 million in 2012-13.

There were six successful prosecutions for legal aid fraud. Four of these were applicants for legal aid services and two were experts providing services on legal aid cases.

In 2013-14, the LAA will redevelop and refresh the LSC's Counter Fraud Strategy to focus activity over the next three years.

Working with providers

The LSC continued its extensive work with legal aid providers to further improve the way claims for legal help payments are made. This work was designed to reduce the risk of errors and included the profiling of provider risk in order to target the areas of greatest concern. This provided a framework for the LSC's contract managers, responsible for managing relationships with providers, and the LSC's in house auditors. Teams visited providers to offer guidance and support to help providers claim more accurately and where relevant identify and correct errors and recover overpayments.

Particular emphasis was placed on working with family and immigration and asylum providers. In line with the requirements of *Managing Public Money*, the LSC actively looked to recover monies in situations where providers had been overpaid. As a result of this work, the LSC recovered over £16 million of overpayments in 2012-13.

In addition to making these recoveries, the LSC issued over 1,218 contract notices, which require providers to improve the way they claim for payments within a certain period, and over 121 contracts were terminated. The LSC followed up all contract notices after six months to ensure that providers rectified the weaknesses identified in their procedures.

The LAA will continue this work to improve the management of claims for legal aid payments throughout 2013-14.

Commentary on 2012-13 financial results

Production of the 2012-13 year end accounts

The LSC produced two sets of accounts that are included within this document. The first set covers the Community Legal Service Fund (CLSF) and the Criminal Defence Service (CDS) together, known as the Fund accounts. The second set of accounts detail the administration costs of running the LSC. From 2013-14, the LAA plans to produce one set of accounts covering both criminal and civil legal aid as well as the Agency's administration costs.

For 2012-13, receivables and amounts due to providers for work done but not yet settled were the two most significant balance sheet items within the Fund accounts. Amounts due to providers were estimated on the basis of average case lengths and average costs, adjusted for when the work is undertaken and subsequently billed, by individual category of legal aid. Unpaid bills received were treated as payables and unpaid work reported in payment on account claims were treated as accruals, with the balance recognised as a provision.

The Fund accounts receivable balances included contributions due from funded clients, costs recoverable from funded clients or others, including statutory charges, and recoveries of damages.

Statutory charges arise where legally aided clients successfully gained or retained an asset as a result of their legal assistance. In these circumstances the client must repay their legal aid, known as the statutory charge. If clients choose to defer this repayment, the LSC gains security over this debt by registering a formal charge over the relevant assets. Where funded clients have recovered or preserved property or other assets, rather than obtaining damages, recoverable costs may have been secured against these assets. Interest was charged against this debt at 8% simple interest. Such secured debts were only repayable on sale of these assets or death of the client, though clients are encouraged to repay debts to avoid interest charges.

Civil Representation debts were quantified through a case balancing process, which takes account of the total value recoverable for the client but then limits the recovery to the cost to the Fund. The debt was identified from a full reconciliation of activity through the LSC's case management system, adjusted for any write offs.

In addition, some debts arise from legal aid providers, for example to recognise the need to recover over payments made.

Accounting standards

Under paragraph 16 (1) of Schedule 1 to the Access to Justice Act 1999, the Secretary of State for Justice directed the LSC to prepare, for each financial year, accounts for the CLSF and CDS as well as for the administration of the LSC itself. This direction covers the resources acquired, held or disposed of during the year and the use of resources by the LSC. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the LSC and of its Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the financial year.

The financial statements for the LSC's administration and the CLSF and CDS are prepared in accordance with the *HM Treasury's Government Financial Reporting Manual* (FReM) 2012-13 and applicable accounting standards.

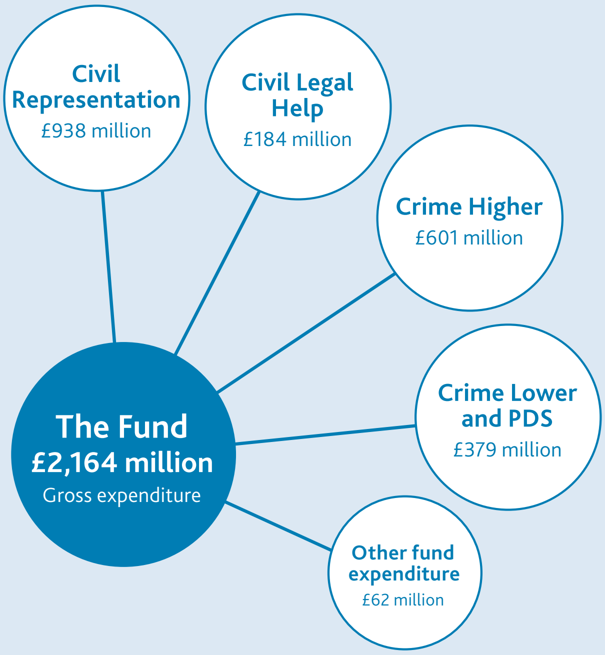
Financial reports 2012-13

Management commentary *(continued)*

Results for the year

The story of our Fund accounts

From page 56 we set out the financial statements for the CLSF and the CDS. The Access to Justice Act 1999, requires that we report our financial information between these two funds. In practice day to day we budget and manage our expenditure by four key areas as set out below in the diagram. We call this in totality 'The Fund' and it represents all of the legal aid funding we have to commission and deliver legal aid services.



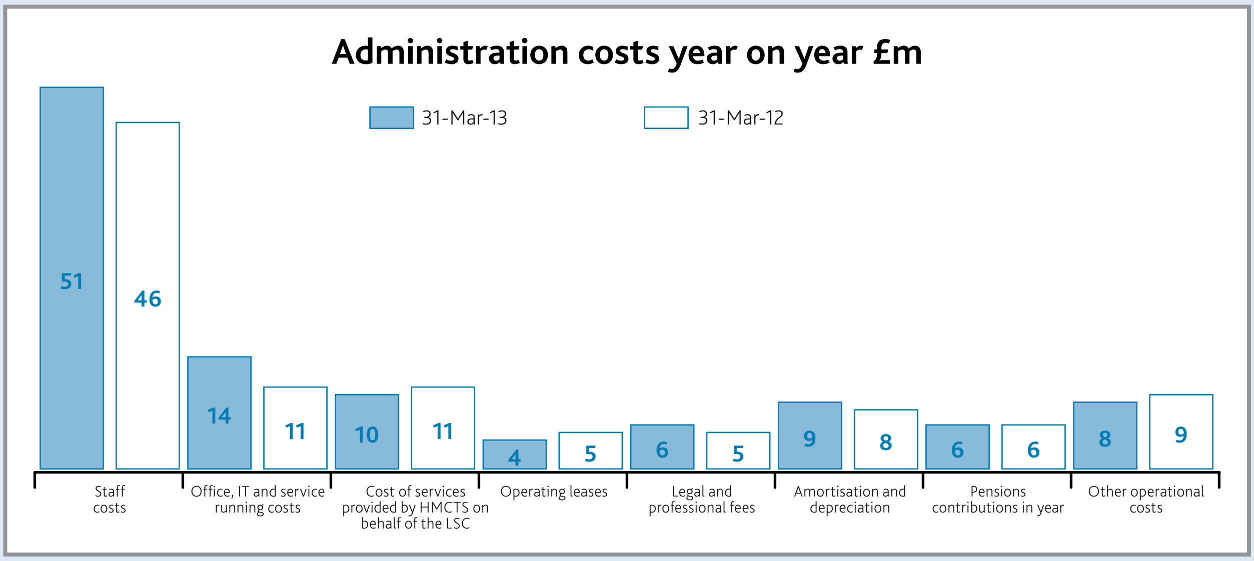
Note 2 to the CLSF and CDS financial statements sets out the income and expenditure in detail for the four reportable segments as set out above.

Over the past year we have seen an overall reduction in gross fund expenditure of £135.4 million. In practice this is made up of a number of movements both upwards and downwards. The key activities which have impacted upon our expenditure are listed below:

- In Civil Representation we have seen an increase in Special Children Act cases both in terms of volume and average case price. Before the end of the financial year we also saw an increase in providers submitting their applications ahead of LAR reforms being implemented.
- In Legal Help our helpline activity has reduced, so has the volume of new matter starts. The average price of cases is also 4% lower than in the prior year.
- In Crime Lower magistrates' courts volumes are down and in general crime rates reported are lower than last year.
- In Crime Higher, Crown Court sitting days reduced in volume year on year. The introduction of Crown Court Means Testing (CCMT) may also have suppressed demand in this area.

The story of our administration accounts

We have continued to maintain robust monitoring controls on our administration expenditure and have a culture where commercial awareness and stewardship of public money is a priority. The chart below sets out the balance of where we spent our administration budget in the past two years.



Management commentary *(continued)*

Staff costs have increased compared to prior year by £5.5 million. The majority of this increase (£3 million) relates to an increase in redundancies. 53 members of staff were made redundant compared to 12 in the previous year. These redundancies largely reflect the impact of moving to become an executive agency; we have rationalised a large proportion of our support team functions such as HR where as the LAA we will now participate in MoJ shared services.

Increases in office, IT and service running costs of £3.1 million is mainly due to revenue elements of major systems improvements. £2.6 million of this amount relates to service and revenue costs associated with IDP.

HMCTS administers legal aid in Crown Courts under a service level agreement, the total charge has reduced in year by £0.9 million.

Understanding the pensions figures in the accounts

The LSC has historically operated two pension fund schemes, which we refer to as the 'No. 3' and 'No. 4' Pension Schemes. As part of our transition to becoming an executive agency we have been working throughout the year with the Trustees and scheme members to transfer the responsibilities of the pension schemes from the LSC to the Secretary of State for Justice. In practice this has meant merging the two schemes together, ensuring all members of the scheme understand the changes including personal impact and safeguarding the interests of members financially in the future through the agreement of a Crown Guarantee. Members of staff in the scheme have the option of transferring their accrued service into the PCSPS or retaining their benefits in the LSC No. 4 Pension Scheme.

Our financial statements comply with the accounting standard *IAS 19 Employee Benefits*, which requires us to present our pension scheme information using actuarial assumptions. Note 4 to the LSC Administration accounts sets out this information. In order to simplify the meaning of this note we have set out a short summary of the numbers which are most critical and what they mean below.

	Administration accounts £000	Explanation
Statement of financial position **Pension asset**	**Nil this year** **5,843 in prior year**	The pension asset represents the value of pension scheme assets i.e. the actual value of our pension scheme investments as at the year end. Where an asset arises, we use the value of the assets to fund pension contributions in the following year. Due to the scheme transferring, you will see that we have used all our assets in year to fund pension contributions in 2012-13 resulting in a nil position at the end of the year.
Note 4 pension scheme assets	**342,438**	This represents the actuarial valuation of investments belonging to the scheme i.e. our best estimate of the value of assets over the life of the scheme.
Note 4 pension scheme liabilities	**(275,601)**	This represents the actuarial valuation of our liabilities to pension scheme members at the end of the year, i.e. our best estimate of the value of liabilities over the life of the scheme.
Pension scheme cumulative surplus described as irrecoverable	**66,837**	This is the net value of our assets less our actuarial estimate of liabilities at the balance sheet date. This means that we can meet the estimated liabilities due over the life of the scheme based on our predicted investment returns. IAS 19 requires us to call the surplus irrecoverable because in practice this amount is notional not real and in practice will change over time.

Financial reports 2012-13

Management commentary *(continued)*

Going concern

The going concern basis is set out in note 1a) of the CLSF and CDS financial statements and in note 1a) and note 17 of the LSC Administration financial statements.

As the functions previously provided by the CLSF, CDS and LSC Administration will continue to be provided using the same assets by another public sector entity, the LAA, it remains appropriate for the final financial statements for the CLSF, CDS and the financial statements for the LSC Administration in respect of the year to 31 March 2013 to be prepared on a going concern basis in accordance with the *Government Financial Reporting Manual* issued by HM Treasury.

The Statements of Financial Position at 31 March 2013 show aggregated net liabilities of £760.1 million. All liabilities falling due in future years will now be financed by the LAA. It is noted there are no new additional liabilities as a result of the transfer. Note 19 of the Fund financial statements details the assets and liabilities of the LSC on the 31 March 2013 and their subsequent transfer to the LAA on 1 April 2013.

Provision for Resource and Capital Expenditure, as well Annually Managed Expenditure for 2013–14 for the functions previously performed by the LSC but prospectively to be performed by the LAA, has already been included in the estimates of the MoJ. These estimates have been approved by Parliament, and there is no reason to believe that the MoJ's' future sponsorship and future Parliamentary approval will not be forthcoming.

Grant and loan making powers

Under section 6 (3)(c) of the Access to Justice Act 1999, the LSC was able to fund services as part of the CLSF by making grants or loans to persons or bodies to enable them to provide or facilitate the provision of services. During 2012-13, the LSC made grants in accordance with the Secretary of State's specific direction. This expenditure is reported in note 3 of the CLSF and CDS financial statements under the heading: 'Grants and Direct Services'.

Contractual arrangements

The LSC has contractual arrangements with legal aid service providers. Information about the number of contracts with service providers can be found in the 'Year in focus' chapter.

Auditors

Paragraph 16 of Schedule 1 to the Access to Justice Act 1999 provides that the LSC's external auditor is the Comptroller and Auditor General. The cost of the audit is disclosed in note 8 to the LSC Administration financial statements and relates solely to statutory audit work.

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

Engagement in Wales

The LSC facilitated the Wales Committee for the CLS to advise the LSC on the differences and best practice in delivering legal aid in Wales.

Reporting of personal data related incidents

There were no personal data related incidents reported to the Information Commissioner's Office (ICO) in 2012-13. There were 144 other incidents reported to the MoJ in line with our agreed reporting procedures; none of which met the criteria for reporting to the ICO (see Table D).

In 2012-13 we continued to work in line with our data and information security policies, which align to those of the MoJ and to government's *Security Policy Framework*. Our staff understood the important principle of protecting all the data we worked with, and this was reinforced through a combination of training, update meetings and internal guidance and articles. These steps have contributed toward managing the number of reported incidents and we continued to develop and refine our processes to minimise the risk of data loss throughout 2012-13.

Table D: Summary of other protected personal data related incidents in 2012-13

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	10
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	28
III	Insecure disposal of inadequately protected electronic equipment, devices or paper	0
IV	Unauthorised disclosure	103
V	Other	3

Future development, performance and opinion

The year ahead is one of continuing change for the LAA; in terms of the organisation itself, the legal aid schemes that it administers and way it operates. It is also a year of opportunity, and the change that took place at the start of the year was no exception.

On 1 April 2013, the LSC became the LAA. This was a change not only in name, but also in status, as the organisation moved from being a NDPB, to an executive agency. For the first time, staff became civil servants and the organisation moved to become a closer part of the MoJ, with the Lord Chancellor becoming responsible for the delivery of legal aid.

The LAA published its first Business Plan on 16 April 2013 which set out the key priorities for the year ahead and the strategic objectives that will support delivery of these priorities. These are;

- 1: Improve casework to reduce cost, enhance control and give better customer service.
- 2: Improve organisational capability to meet the challenges ahead, including developing and engaging our people.
- 3: Build and maintain strong partnerships to secure quality provision and contribute fully to wider justice and Government aims.

The Business Plan also outlines the culture and values that will drive the organisation to meet its objectives, and achieve its purpose of 'Delivering legal aid efficiently and effectively as part of the justice system'.

The LAA will deliver a challenging change programme over this period, including the national roll out of its new online civil case management system and implementation of the reforms within the LASPO Act 2012. All of this will be delivered whilst focusing on the core business of processing legal aid applications and bills in a timely and accurate manner. The LAA will also demonstrate, through the Director of Legal Aid Casework, the independence from Ministers with which it has operated in determining who should receive legal aid.

Signed for and on behalf of the Legal Services Commission

Matthew Coats
Chief Executive and Accounting Officer of the Legal Services Commission to 1 April 2013 and of the Legal Aid Agency from 1 April 2013

20 June 2013

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Sustainability report

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

Introduction

This is the LSC's second and final Sustainability report, prepared in accordance with 2012-13 guidelines laid down by HM Treasury in *'Public Sector Annual Reports: Sustainable Reporting'* published at http://www.hm-treasury.gov.uk/frem_sustainability.htm. The focus for sustainability is on achieving government targets, reducing environmental impact and reducing costs. Priorities include reducing carbon emissions, water consumption and recycling more waste.

As outlined in the Annual Report, the LSC was abolished as a result of the LASPO Act 2012. An executive agency of the MoJ was created to administer legal aid from 1 April 2013 called the LAA. The LAA will be required to report through the MoJ in future years.

The LSC focus for sustainability reporting was based on three key drivers: legislation, government policy and the benefits of Sustainable Development (SD) which is defined as development which meets the needs of current generations without compromising the ability of future generations to meet their own needs.

The Government's pledge to be the '…greenest Government ever' has led to challenging Greening Government Commitments (GGCs) being published. In order to reduce environmental impact by 2015, the LSC and its successor, the LAA will need to:

- Reduce greenhouse gas emissions from a 2009-10 baseline across the whole estate and business related transport.
- Reduce waste generated by 25% from a 2009-10 baseline.
- Reduce water consumption from a 2009-10 baseline, with reports on water use against best practice.
- Ensure procurement of sustainable and efficient products whilst reducing the impact of the supply chain.

The GGCs can be found at: http://sd.defra.gov.uk/gov/green-government/commitments/.

The LAA will continue working with the MoJ's SD team to align and incorporate the LAA into their long term Sustainability Strategy in delivering on the GGCs in 2015. The focus will be the provision of a robust baseline against which the LAA can demonstrate ongoing progress. As part of this work the LAA will compile and maintain necessary data for budget setting for carbon allowances.

Sustainable procurement

The LSC's approach to sustainable procurement took into account economic, environmental and social issues, internal and external to the organisation when making procurement decisions. Value for money in terms of benefits and limiting unintended impacts was also a key consideration.

The LSC Procurement team continued to work on building strong, mutually beneficial, supplier relationships, understanding the inputs and sources of the products and ensuring high standards of compliance with equalities and other key legislation impacting upon sustainability.

As an executive agency from 1 April 2013, the LAA will be subject to central MoJ processes and policies on sustainable procurement. This will require a continued focus on achieving more sustainable procurement methods, resulting in less waste and reducing our environmental impact, in line with the GGC.

Summary of the LAA's future strategy

The LAA will continue to work with the MoJ's SD team to align policies and incorporate the Agency's estate into the MoJ's reporting and long term strategic planning. Where possible, the LAA's intention is to ensure joined up services, contracts and facilities are in place so that data required for SD reporting is available from a central source.

In 2013-14, the LAA will continue to mainstream current processes to ensure SD reporting requirements are met as part of the MoJ's overarching SD Strategy.

Carbon Reduction Commitment (CRC) Energy Efficiency Scheme

CRC is a mandated carbon trading scheme that requires participants to submit energy consumption records and purchase carbon allowances to cover predicted carbon emissions.

LSC was not part of CRC during 2012-13 due to its status as an NDPB. From 1 April 2013 the LAA as an executive agency of the MoJ, will form part of the MoJ's mandated annual CRC submission managed by the MoJ SD team and will provide for carbon credits based on recorded consumption.

About our data

The LSC did not have internal SD targets for 2012-13. As the LSC did not own any land or buildings or have a central facilities service or building management, input and control over SD has been limited. This has also limited the amount of data available on the LSC's use of resources, emissions and waste throughout 2012-13 and in previous years.

Energy and water usage data is only available for locations where the LSC paid for the utilities directly. The LSC was unable to obtain data on usage that is directly paid by landlords via service charges. Where accurate consumption could not be identified, the LSC has reported financial information extracted from accounting records. The LSC did not set any environmental targets for 2013-14 due to the transition to the LAA.

The LAA will continue to improve the systems and processes used to capture and monitor relevant SD data throughout 2013-14.

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Summary of the LSC's Performance in 2012-13

Greenhouse gas (GHG) emissions

Overall GHG emissions increased by 25% in comparison to 2011-12 as a result of a 17% increase in electricity usage and a 46% increase in gas usage. The increase is largely due to climatic conditions encountered during 2012-13 which led to significant increases in consumption of heating fuels. There has been a 25% reduction in travel emissions. As an executive agency, the LAA will, from 2013-14 onwards, report directly into MoJ systems for monitoring GHG emissions. This will increase the granularity of available data and enable more comprehensive tracking of progress in future SD reporting.

Table E: GHG emissions

		2012-13	2011-12
Non-financial indicators (Tonnes of CO_2 equivalent (tCO_2e))	Total gross emissions for scopes 1 & 2	**1,757**	1,445
	Electricity: green/renewable	**N/A**	N/A
	Total net emissions for scopes 1 & 2 (i.e. having removed renewable elements)	**1,757**	1,445
	Gross emissions scope 3 travel	**49**	65
	Total gross reported emissions	**1,806**	1,510
Non-financial indicators (Megawatt hour (MWh))	Electricity: Purchased, Grid, CHP & non-renewable	**2,779**	2,367
	Electricity: renewable	**N/A**	N/A
	Gas	**1,681**	1,153
	Other energy sources	**N/A**	N/A
	Total energy	**4,460**	3,520
Financial indicators (£000)	Expenditure on energy	**380**	316
	Expenditure on accredited offsets (e.g. Government Carbon Offsetting Facility)	**N/A**	N/A
	Expenditure on official business travel	**548**	610

Waste

This is the fourth consecutive year the LSC has substantially reduced the tonnage of recycled waste, an overall reduction since 2009-10 of over 60% which reflects the downsizing of the LSC Estate as we increase co-location within the MoJ's existing estate. All other general waste created by LSC was disposed of through individual contracts at a local level. The LAA is working on a solution to accurately monitor waste, and use this data to accurately measure and report across the organisation. A number of awareness events and communications campaigns were run during 2012-13 to encourage behavioural change in the creation and disposal of waste.

Sustainability report *(continued)*

Table F: Waste

			2012-13	2011-12
			Weights (tonnes)	Weights (tonnes)
Non-financial indicators	Hazardous waste	Hazardous waste	**Not Available**	Not Available
	Non-hazardous waste	Landfill waste	**Not Available**	Not Available
		Reused/recycled waste	**148**	255
		Energy from waste	**Not Available**	Not Available
	Total waste arising		**148**	255
			(£000)	(£000)
Financial indicators (£000)	Hazardous waste	Hazardous waste	**Not Available**	Not Available
	Non-hazardous waste	Landfill waste	**Not Available**	Not Available
		Reused/recycled waste	**17**	40
		Energy from waste	**Not Available**	Not Available
	Total waste costs		**17**	40

Water

Available financial data indicates a reduction of over 20% in the cost of water used by the LSC in 2012-13 when compared to 2011-12 reflecting the downsizing of the LSC Estate as we increase co-location within the MoJ's existing estate. The LAA has now moved contracts for property management to those used by the MoJ and is in the process of acquiring the historical estate information which landlords hold as well as all other information that is required for monitoring and reporting finite resource consumption.

Table G: Water

			2012-13	2011-12
Non-financial indicators (cubic metres)	Water consumption	Supplied	**Not Available**	Not Available
		Abstracted	**Not Available**	Not Available
	Total water consumption		**Not Available**	Not Available
Financial indicators (£000)			**(£000)**	(£000)
	Total water supply costs		**19**	25

Biodiversity and natural environment

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

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Remuneration report

This chapter summarises the LSC's policy on remuneration of Executive Directors, Non Executive Commissioners and the independent member of the LSC Audit Committee; it also provides detail of actual costs and contractual arrangements with the aforementioned persons.

The tables in this report have been subject to audit by the external auditor, the NAO, appointed under the Access to Justice Act 1999.

For the purposes of this report we describe all directors who are members of the Executive Team and make decisions day to day at this group outside of their own portfolio of responsibility as Executive Directors.

Ruth Wayte, Sandra Corrigan and Damon Norville were not disclosed as Executive Directors in the Remuneration report last year, but on the basis of the criteria outlined above it is considered that they should have been and as such details of their remuneration for the current year and last year are included in this report.

Under the LASPO Act 2012, which achieved Royal Assent on 1 May 2012, the LSC was abolished on 1 April 2013 and replaced with the LAA, an executive agency of the MoJ.

With effect from 1 April 2013 all LSC Executive Directors became Executive Directors of the LAA and the appointments of all LSC Non Executive Commissioners were terminated.

The Pay Committee

The Pay Committee reviewed the contractual arrangements and salaries of the Chief Executive and the Executive Directors.

Pay Committee members included two Commissioners and two independent members. The members did not have any involvement in the day to day running of the LSC. The members of the Pay Committee during 2012-13 were:

- Beryl Seaman CBE JP (Chair).
- Julian Lee
- Helen Murlis (independent member)[1]
- Beverley Shears (independent member)[2]

The Chief Executive and the Director of Human Resources and Organisational Development attended the Committee to assist it in its deliberations. These individuals did not participate in any decisions relating to their own remuneration. The Chief Executive, Matthew Coats, was a MoJ employee and his remuneration was administered by the MoJ.

Due to the transition to the LAA, and as staff would become civil servants in April 2013, the committee was disbanded, with the last meeting being held on the 27th of June 2012.

Remuneration policy

Executive Directors

Employment contracts

LSC appointments to Executive Director roles were made in accordance with the LSC's recruitment policy, which required appointments to be made on the basis of fair and open competition but also included the circumstances when appointments may otherwise be made. Start dates and notice periods for the Executive Directors are highlighted in Table I.

There was one Executive Director seconded from the MoJ and two seconded from HMCTS. The appointments for these people were made in accordance with the *Civil Service Commissioners' Recruitment Code* and were managed by the MoJ. All three secondments ended on 31 March 2013 and the secondees were transferred to the LAA as full time employees as of 1 April 2013.

1 Helen Murlis was an independent reward specialist and former Senior Director of Hay Group.

2 Beverley Shears had a background in change management and organisational transformation and also specialised in HR matters.

Remuneration report *(continued)*

Performance process

The Chief Executive, all Executive Directors and LSC staff followed the PDR process. Progress and objectives were monitored twice a year by the Human Resources team. The performance measured for each member of the Executive Directors had been met.

SCS follow the Cabinet Office guidelines for SCS. There were two 'formal' PDR discussions a year and then regular one to one meetings to monitor progress and ensure that all objectives were still relevant.

Information about LAA's current Executive Directors is available at: http://intranet.justice.gsi.gov.uk/laa/organisation-and-vision/executive-team.htm

Base pay and bonuses

Executive Directors who were appointed on a permanent basis had their base pay determined on appointment. This followed an evaluation of the job, which is informed by market research and reflects the higher pension contributions paid relative to the private sector.

There have been no increases in base pay for Executive Directors since 2009.

Non consolidated performance payments

Non consolidated performance payments relate to performance in the prior financial year, i.e. 2011-12. Details relating to 2012-13 will be reported in the 2013-14 LAA report.

Executive Directors were eligible for a non consolidated performance payment in line with MoJ policy.

Exit packages

Note 3 to the 'LSC Administration financial statements', sets out information in relation to exit packages.

Helen Riley left under voluntary exit terms on 31 October 2012. She received a compensation payment of £156k.

Pensions

From 1 April 2013 all employees became civil servants and were automatically enrolled into the Premium Scheme of the PCSPS. The No.4 Pension Scheme closed for future contributions but continues to exist for preserved and pensioner members.

Note 4 in the LSC Administration financial statements, sets out information in relation to LSC pension schemes.

Pension benefits for civil servants seconded to LSC were provided through the civil service pension arrangements managed by the MoJ. For further information please refer to www.civilservice.gov.uk/pensions.

Non Executive Commissioners

The Secretary of State for Justice appointed Commissioners for a fixed term and determined their pay, which was based on judicial salaries set by the Senior Salaries Review Board.

Commissioners were appointed with different time commitments and were also reimbursed for travel and other business expenses they incurred.

Commissioners were not members of the LSC's pension scheme, and were not entitled to any other benefits or remuneration.

If a Commissioner's appointment was terminated for reasons other than the expiry of their term, the Secretary of State for Justice may have determined that compensation was payable based on the nature of the termination and the length of the term remaining.

Details in relation to Commissioners' service terms, benefits or remuneration are included in Tables K and L.

Independent member of the LSC Audit Committee

During the year, an independent member of the LSC Audit Committee was appointed on 1 November 2012. Appointment was made in accordance with the MoJ's recruitment policy, which required appointments to be made on the basis of fair and open competition.

Remuneration was consistent with that of independent audit committee members within the MoJ. Appointment was made with a time commitment of six days and remuneration was administered by the MoJ. Reimbursement was made for travel and other business expenses.

Details in relation to their service terms, benefits or remuneration are included in Tables M and N.

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Remuneration report *(continued)*

Table H: Senior employees in post at 31 March 2013 – employment costs

Executive Directors	Salary and allowances £000	Non consolidated performance related pay £000	Benefits in kind £000	Total 2012-13 £000	Total 2011-12 £000
Matthew Coats *Chief Executive (from 27 February 2012)*	**140-145**	-	-	**140-145**	10-15 (140-145 full year equivalent)
Hugh Barrett[1] *Director of Legal Aid, Commissioning and Contract Management*	**140-145**	-	-	**140-145**	140-145
Owen Mapley *Director of Finance and Corporate Services*	**110-115**	**5-10**	-	**120-125**	120-125
Ruth Wayte *Legal Director*	**100-105**	-	-	**100-105**	95-100
Shaun McNally CBE[2] *Director of Case Management (from 22 October 2012)*	**35-40 (80-85 full year equivalent)**	-	-	**35-40 (80-85 full year equivalent)**	N/A
Sandra Corrigan *Director of Human Resources and Organisational Development*	**85-90**	-	-	**85-90**	85-90
Damon Norville *Director for Business Change and Information Technology*	**75-80**	**5-10**	-	**85-90**	90-95
Helen Riley* *Director of Case Management (left 31 October 2012)*	**65-70 (115-120 full year equivalent)**	**5-10**	-	**75-80 (125-130 full year equivalent)**	115-120

* Helen Riley left the LSC on 31 October 2012. Her total pay during 2012-13 up to 31 October 2012 included £10,000 in non consolidated performance related pay which was paid in June 2012. A voluntary redundancy payment in line with terms and conditions was paid in October 2012 for £156k.

	2012-13	2011-12
Band of highest paid Director's total remuneration (£000)	**140-145**	165-170
Median total remuneration (£)	**25,499**	24,526
Ratio	**5.6:1**	6.9:1

Remuneration report *(continued)*

Reporting bodies are required to disclose the relationship between the salary of the most highly paid director in their organisation and the median earnings of the organisation's workforce.

The banded remuneration for the highest paid director in the LSC in the financial year 2012-13 was £140-145k (2011-12: £165-170k). This was 5.6 times the median remuneration of the workforce, which was £25,499 (2011-12: £24,526).

The decrease in the ratio to 5.6 (2011-12: 6.9) was primarily due to a new appointment to the Chief Executive post for which the remuneration banding was lowered.

In 2012-13, no employee (2011-12: nil) received remuneration in excess of the highest paid director. This excludes any severance pay in respect of compulsory redundancies or voluntary early departures disclosed at note 3 in the LSC Administration financial statements.

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

Table I: Executive Directors – employment contracts

Executive Directors	Contract start date	Term served (years)	Notice period (months)
Matthew Coats	**27 February 2012**	**1**	**3**
Hugh Barrett[1]	**1 December 2008**	**4**	**3**
Owen Mapley	**1 December 2010**	**2**	**3**
Ruth Wayte	**7 July 2003**	**9**	**3**
Shaun McNally CBE[2]	**22 October 2012**	**<1**	**3**
Sandra Corrigan	**18 April 2005**	**7**	**3**
Damon Norville	**4 October 2010**	**2**	**3**
Helen Riley	**17 April 2006**	**6**	**N/A**

Notes for Tables H and I

1 During the year, Hugh Barrett was a part time Non Executive Director with the Criminal Records Bureau and attended his final meeting on 23 November 2012. The Criminal Records Bureau compensated the LSC for his time (2012-13: £5,200, 2011-12: £8,000). The figure disclosed in Table H was Hugh Barrett's gross remuneration.

2 Shaun McNally CBE joined as Director of Case Management on 22 October 2012 and replaced Helen Riley who left on 31 October 2012.

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Remuneration report *(continued)*

Table J: Executive Directors – pension costs for the year ended 31 March 2013

	Total accrued pension payable at age 60 at 31 March 2013 and related lump sum		Real movement in pension and related lump sum payable at age 60		CETV at 31 March 2013	CETV at 31 March 2012	Real increase in CETV
		£000		£000	£000	£000	£000
	Pension	40-45	Pension	2.5-5			
Matthew Coats[1]	Lump sum	0-2.5	Lump sum	0-2.5	555	480	40
	Pension	5-10	Pension	0-2.5			
Hugh Barrett[2]	Lump sum	20-25	Lump sum	5-7.5	170	161	34
	Pension	5-10	Pension	0-2.5			
Owen Mapley[1]	Lump sum	0	Lump sum	0	102	78	13
	Pension	10-15	Pension	0-2.5			
Ruth Wayte[2]	Lump sum	30-35	Lump sum	2.5-5	186	161	10
	Pension	25-30	Pension	0-2.5			
Shaun McNally CBE[3]	Lump sum	80-85	Lump sum	0-2.5	424	398	3
	Pension	10-15	Pension	0-2.5			
Sandra Corrigan[2]	Lump sum	30-35	Lump sum	2.5-5	198	166	12
	Pension	20-25	Pension	0-2.5			
Damon Norville[3]	Lump sum	65-70	Lump sum	0-2.5	324	301	4
	Pension	5-10	Pension	0-2.5			
Helen Riley[4]	Lump sum	25-30	Lump sum	0-2.5	167	152	9

Notes for Table J

1 Matthew Coats and Owen Mapley were members of the Premium Scheme of the PCSPS.

2 Hugh Barrett, Ruth Wayte and Sandra Corrigan were members of the LSC Staff Pension and Assurance Scheme (No.4).

3 Shaun McNally CBE and Damon Norville were members of the Classic Scheme of the PCSPS.

4 Helen Riley was a member of the LSC Staff Pension and Assurance Scheme (No.4) and her pension was calculated until her last day at the LSC, 31 October 2012.

Active members of the LSC Staff Pension and Assurance Scheme (No. 4) contribute a rate of 6.5% of their pensionable earnings. These pension contributions are restricted to the 'Scheme Notional Earnings Cap' which was set at £137,400 in 2012-13.

The Schedule of Contributions dated 28 November 2011 set the employer contribution rate at 19.9% of pensionable earnings. A special contribution of £7m was paid by the Commission on 29 March 2012. This was paid in accordance with the agreement between the Commission and the Trustees of the LSC Pension Schemes. The special contribution discharged the Commission from its obligation to pay contributions under the Schedule of Contributions during the year to 31 March 2013.

Remuneration report *(continued)*

Cash Equivalent Transfer Value (CETV)

A CETV represents the notional value of a member's accrued pension benefit at a point in time. The valued benefit also includes, where applicable, a spouse's pension payable from the scheme. When a member leaves the 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 scheme or PCSPS from other pension arrangements. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

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

Non Executive Commissioners

Non Executive Commissioners were part time and their role involved a commitment of between 30-40 days per year during 2012-13. The Chair remained on 60 days. They held office until the end of the period for which they were appointed.

Commissioners' appointments may have been terminated in accordance with paragraph 5 of Schedule 1 to the Access to Justice Act 1999. Any appointments made by the Secretary of the State may have been terminated at his discretion.

Table K: Non Executive Commissioners in post at 31 March 2013 – appointment costs

Commissioner	Date current term commenced	Date term expired[1]	Remuneration[2] £000	Expenses[3] £000	Total 2012-13 £000	Total 2011-12 £000
Sir Bill Callaghan *Chair*	**28 July 2011**	**1 April 2013**	**54.0**	**-**	**54.0**	54.0
Barry Elliott	**1 June 2011**	**1 April 2013**	**14.3**	**1.9**	**16.2**	22.7
Tom Jones OBE	**1 March 2013**	**1 April 2013**	**14.3**	**5.1**	**19.4**	26.7
Julian Lee	**1 November 2011**	**1 April 2013**	**10.7**	**0.8**	**11.5**	11.6
Beryl Seaman CBE JP	**1 July 2008**	**1 April 2013**	**14.3**	**2.5**	**16.8**	24.1
Dr David Wolfe QC	**1 October 2008**	**1 April 2013**	**10.7**	**0.6**	**11.3**	11.8

Notes for Table K

1 Under the LASPO Act, which achieved Royal Assent on 1 May 2012, the LSC was abolished and replaced with an executive agency of the MoJ. Appointments were terminated on the abolition of the LSC.

2 With the exception of the Chair, Commissioners were appointed with different time commitments but were paid the same daily rate of £357.10.

3 The cost of expenses varied according to the distance between the Commissioner's home and the LSC's office, other travel commitments required by their role, and the time commitment of the individual Commissioner. Commissioners were reimbursed for travel and other expenses including any taxation paid on those expenses.

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Remuneration report *(continued)*

Table L: Non Executive Commissioners – appointment terms

Commissioner	Appointment date	Term served (years)
Sir Bill Callaghan *Chair*	28 July 2008 (Appointed Commissioner for one month, Chair from 1 September 2008) Reappointed 2011	5
Barry Elliott	1 June 2007 Reappointed 2011	6
Tom Jones OBE	1 March 2004 Reappointed 2008 Extended 2011 Reappointed 2013	9
Julian Lee	1 November 2008 Reappointed 2011	4
Beryl Seaman CBE JP	1 July 2005 Reappointed 2008 Extended 2011	8
Dr David Wolfe QC	1 October 2005 Reappointed 2008 Extended 2011	7

Note for Table L

No Commissioners left the LSC during 2012-13.

More information about how Commissioners are appointed and individual Commissioners' experience can be found on the **www.legalservices.gov.uk/aboutus/how/commissioners.asp**.

Table M: Independent Member of the LSC Audit Committee in post at 31 March 2013 – remuneration

Independent Member of the LSC Audit Committee	Date current term commenced	Date term expires	Remuneration £000	Expenses £000	Total 2012-13 £000	Total 2011-12 £000
John Grosvenor	**1 November 2012**	**1 April 2013**	**2.4**	**0.2**	**2.6**	N/A

Remuneration report *(continued)*

Table N: Independent Member of the LSC Audit Committee – appointment period

Commissioner	Appointment date	Term served (years)
John Grosvenor[1]	1 November 2012	<1

Note for Table M and N

1 From 1 April 2013 John Grosvenor became a Non Executive Board member of the LAA and Chair of the LAA Audit Committee. John Grosvenor was paid a daily rate of £400 for six days in 2012-13.

Signed for and on behalf of the Legal Services Commission

Matthew Coats
Chief Executive and Accounting Officer of the Legal Services Commission to 1 April 2013 and of the Legal Aid Agency from 1 April 2013

20 June 2013

Statement of the Commission and Accounting Officer's responsibilities

Under paragraph 16 (1) of Schedule 1 to the Access to Justice Act 1999, the Secretary of State for Justice has directed the LSC to prepare for each financial year financial statements for the CLSF and the CDS as well as the administration of the LSC detailing the resources required, held or disposed of during the year and the use of resources by the LSC during the year. The financial statements are prepared on an accruals basis and must give a true and fair view of the state of affairs of the LSC and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

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

- Observe the Accounts Direction issued by the Secretary of State for Justice, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- Make judgments 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 financial statements.
- Prepare the financial statements on a going concern basis.

The Principal Accounting Officer of the MoJ has designated the LSC's Chief Executive as Accounting Officer of the LSC up until 1 April 2013 and has designated the LAA Chief Executive as Accounting Officer from 1 April 2013. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the LSC's assets, are set out in *Managing Public Money* published by the HM Treasury.

Governance statement

The Governance statement is an annual statement; it provides an open assessment of how we have balanced risk, assurance and control throughout 2012-13.

Introduction

As Accounting Officer I am satisfied that the LSC embedded an effective system of internal control throughout the organisation and throughout the final year of the LSC. Our control environment, encompassing our governance, risk management and control arrangements, put in place systems, processes and controls which allowed the organisation to strike the right balance between control and operational efficiency. This contributed to the successful delivery of our aims, objectives and core business of delivering legal aid, whilst safeguarding the public funds and assets for which I am personally accountable.

This statement sets out a summary of the LSC's governance framework, our risk management strategy and the arrangements in place which assured me of an effectively designed control environment to allow us to deliver legal aid efficiently and effectively.

Governance Framework

The Commission Board formed the collective strategic and operational leadership of the LSC, bringing together the Chairman, the Commissioners, Chief Executive and Director of Finance and Performance, who all had equal decision making rights. The Chair was responsible to the Secretary of State, and he was also responsible for ensuring that plans and activities of the LSC were aligned to ministerial priorities and that the LSC's affairs were conducted with probity.

The Board's remit was to advise and challenge performance and delivery. It was also responsible for ensuring that effective arrangements were in place to provide assurance on risk management, governance and internal control. The Board approved all major spending decisions and had overall responsibility for the allocation of resources. The Board met on a monthly basis, excluding August and December in line with our requirement to meet at least ten times during the year.

The LSC's Framework Document described the Board's role as overseeing the discharge of the LSC's functions. The Board was specifically responsible for:

- Establishing and taking forward the strategic aims and objectives of the LSC and within the policy and resources framework determined by the Secretary of State.
- Ensuring that the minister responsible was kept informed of any changes likely to impact on the strategic direction of the LSC or on the attainability of its targets, and determining the steps needed to deal with such changes.
- Ensuring that any statutory or administrative requirements for the use of public funds were complied with; that it operated within the limits of its statutory authority and any delegated authority agreed with the MoJ, and in accordance with any other conditions relating to the use of public funds; and that, in reaching decisions, it took into account guidance issued by the MoJ.
- Ensuring that it received and reviewed regular financial information concerning the management of the LSC; was informed in a timely manner of any concerns about the activities of the LSC; and provided positive assurance to the MoJ that appropriate action had been taken on such concerns.
- Demonstrating high standards of corporate governance at all times.
- In consultation with the MoJ, setting performance objectives and remuneration terms for the Chief Executive which gave due weight to the proper management and utilisation of public resources.

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Governance statement *(continued)*

Board effectiveness

The Board reviewed its effectiveness in March 2012 following a formal review by the LSC's Internal Audit function and agreed that it was appropriate in the context in which it was operating. As part of the review, Commissioners and Executive Team members were invited to individually consider the current governance structure and also considered the key questions from the NAO's Board evaluation questionnaire which focuses on compliance with the *Code of Good Practice for Corporate Governance*.

The Board's membership, focus and responsibility remained consistent during the course of 2012-13 and therefore the Board's considerations of effectiveness were consistent with those conclusions reached in March 2012. In addition, the Board commissioned an internal audit review of the LSC's governance arrangements which provided positive, independent assurance in regard to LSC governance and raised no significant issues.

The Board has played an important role in monitoring progress of the LSC's key change programmes and projects including the first phase of Legal Aid Reform, the transition of the LSC to an executive agency and the implementation of the IDP. The Board has also closely monitored the LSC's operational and financial performance. To enable it to undertake this role successfully the Board has received a monthly performance pack which has covered all the LSC's main strands of activity, performance against the Commission's KPIs and further information against all the LSC's supporting performance measures. This reporting pack has received considerable praise for the breadth of its coverage and the clarity of its information.

The Board was satisfied that it had sound governance arrangements in place and that the LSC was compliant with the Code of Practice relevant to a NDPB with the minor exception as follows;

The LSC did not have a Nominations and Governance Committee but those responsibilities were covered by the remit of the Board, the Pay Committee and Executive Team combined.

Attendance at the Commission Board

The quorum for the Board was met for all meetings in the 2012-13 financial year.

Board member	Number of meetings attended
Commissioners	
Sir Bill Callaghan	11 out of a possible 11
Barry Elliott	11 out of a possible 11
Tom Jones OBE	11 out of a possible 11
Julian Lee	10 out of a possible 11
Beryl Seaman CBE JP	11 out of a possible 11
Dr David Wolfe QC	10 out of a possible 11
Executive members	
Matthew Coats	11 out of a possible 11
Owen Mapley	11 out of a possible 11

Role and attendance at committees of the Board

Audit Committee

The Audit Committee provided advice on governance, risk and control, overseeing the internal audit programme and the work of the NAO. The Committee actively monitored progress against the accounts production timetable and challenged management on the achievability of deadlines set.

The Committee was chaired by a Commissioner who is a qualified accountant, who also has recent and relevant finance experience. Members during 2012-13 were two other Commissioners and a Non Executive member. Other regular attendees included the LSC Chief Executive and Accounting Officer, the Director of Finance and Performance, Head of Assurance and Performance, the Head of Internal Audit, MoJ and NAO representatives.

The key areas of focus for the Committee in 2012-13 were as follows:

- Oversight of financial management and the embedding of the assurance framework.
- The development and implementation of the LSC's counter fraud strategy.

Governance statement *(continued)*

- The timetable and plan for the production of the Annual Report and Accounts.
- The programme of core testing measuring the accuracy of payments to providers. Review of the Financial Stewardship Programme and the overarching strategy for improvement in this priority area.
- Review of our risk management strategy and assurance over how we manage and mitigate risk throughout the LSC.
- Oversight and monitoring of the IDP, including progress, risk and mitigation for the introduction of the integrated general ledger during the course of the financial year.

The Audit Committee met at least quarterly, with a further meeting specifically to review the 2011-12 annual accounts. The quorum for the Audit Committee was met for all meetings in the 2012-13 financial year.

The Audit Committee prepared an Annual Assurance report for 2012-13. This summarised the main issues which the Committee had focused upon, highlighted the significant improvements to the assurance regime made in the year and identified some key areas the new Audit Committee of the LAA might wish to consider.

The membership of the Audit Committee was as follows;

Audit Committee member	Number of meetings attended
Commissioners	
Barry Elliott	7 out of a possible 7
Tom Jones OBE	7 out of a possible 7
Julian Lee	5 out of a possible 7
Non Executive	
John Grosvenor	2 out of a possible 3

As a result of the abolition of the LSC on 1 April 2013 it was not considered appropriate to review the effectiveness of the Audit Committee during the course of the year. A thorough handover has been completed by the Chair of the Committee and the LAA Audit Committee will review its effectiveness during its first year of operation.

John Grosvenor, a LAA Non Executive Board Member, attended LSC Audit Committees from November 2012 as part of the handover arrangements for effective transition. A special meeting of the Audit Committee was held in March 2013 in advance of the abolition of the LSC and the creation of the LAA. This meeting focused on the formal handover of responsibilities from the LSC Audit Committee to its successor within the LAA.

Pay Committee

The purpose of the Committee was to determine the salaries of the Chief Executive, the Executive Directors and the SCS equivalents in accordance with their contractual arrangements, and approve the Chief Executive's recommendations to the Secretary of State on the pay remit for all other staff.

The quorum for the Pay Committee was two Commissioners, one of whom should chair the meeting. Independent members did not have equal voting rights and did not count towards the quorum.

Pay Committee member	Number of meetings attended
Commissioners	
Julian Lee	1 out of a possible 1
Beryl Seaman CBE JP	1 out of a possible 1
Non Executive	
Helen Murlis	1 out of a possible 1
Beverley Shears	1 out of a possible 1

Given the transition to the LAA, and as staff would become civil servants in April 2013, the committee was disbanded, with the last meeting being held on the 27th of June 2012.

Financial reports 2012-13

Governance statement *(continued)*

Risk management

The Chief Executive and the Executive Team provided leadership to the LSC's risk management processes. The Chief Executive had full support from the MoJ and sat on its Executive Management Committee of the Board (EMCB). The Executive Team considered the strategic risks to delivering the LSC's objectives and reported on them within a corporate risk register. Directors had clear accountability to ensure that systems were in place to manage risks to the delivery of their strategic objectives within their directorates.

The LSC's risk management policy and framework was fully documented and consistent with *HM Treasury's Orange Book* and MoJ requirements. These documents were readily available on the staff intranet.

The Executive Team reviewed the corporate risks in their entirety and held a workshop in January 2013. The output from the workshop formed the basis of the updated risk register. The most significant of these risks, in terms of their likelihood and impact on the LSC, are outlined below:

- Risk of not delivering substantial IT change portfolio. IT changes were integral to the LSC's plans to increase operational efficiency, while reducing our cost base. The most significant programme within the portfolio was the IDP which introduces a new integrated civil case management and finance system. The phased launch during 2012-13 has gone to plan with minimal issues, and this programme should complete during the course of 2013-14 and as part of the LAA
- Risks related to the introduction of LAR that is making significant changes to eligibility criteria and reducing the categories of work within scope of legal aid funding. This was a significant change for both providers of legal aid services and current or prospective clients. The LSC worked closely with providers to work through the impact of the reforms and support our providers through any transitional period.
- Risk of not maintaining our current operational performance which could result in delays in the processing and payment of legal aid applications. Our case management function was resourced to cope with short term volume increases, and we have contingency plans in place which allow us to respond to any operational challenges.

I, and my Executive Team, are satisfied that we put in place adequate and relevant mitigations which sought to prevent the risk from occurring or, where appropriate, sought to reduce the impact of the risk. I am confident that our risk management approach was a comprehensive one which allowed me to monitor and respond to the profile of risks which could have prevented the achievement of the LSC's objectives.

These arrangements form the basis of the risk management approach adopted by the LAA and our risk profile remains consistent and similar to the LSC risk profile summarised above.

Assurance arrangements

The LSC had a comprehensive assurance framework in place during 2012-13 which provided assurance over the LSC's control environment and risk management. The assurance framework relied on management assurance provided through assurance reporting returns and Director and Senior Manager Assurance Statements, as well as independent assurance from internal audit and also drew on NAO assurance provided as part of their work programme on behalf of Parliament. The assurance framework ensured that the control environment was operating as intended to allow the delivery of our aims and objectives, underpinned by a risk management strategy which allowed comprehensive risk identification, measurement and mitigation.

The Board exercised oversight of the performance of the LSC through monthly Board level discussions, based around an integrated finance and performance report that used a balanced scorecard approach to report performance in four areas: financial management and assurance; operational performance; the delivery of our portfolio of change programmes; and key metrics and other information regarding our people and capability.

As part of this report, the Board also considered progress against the delivery of the LSC's strategic objectives, which were broken down into key milestones and targets, and our formal KPIs.

A key source of independent assurance was provided by the LSC's internal audit service, outsourced to PwC since 1 April 2011. A risk assessment was completed, building upon the LSC's strategic risk assessment, and a programme of audit reviews was delivered to provide assurance across these risks during the year. The audit

Governance statement *(continued)*

plan was completed by the year end and provided a comprehensive view of assurance over key risks and the control environment, the result of which were considered in the Head of Internal Audit's Annual Report.

The LSC successfully continued its Stewardship Programme in 2012-13. The LSC had developed and implemented a robust and rigorous programme of testing to identify erroneous transactions and to recover any overpayments. This enabled the LSC to identify the causes of error to allow it to take action to improve its internal control environment and to work with providers to further reduce the level of error.

Stewardship is now embedded across all the LSC's activities and has engendered significant improvements to financial management by helping embed a strong, effective and balanced control environment and assurance framework. There is still more to do to further reduce the level of inaccurate and ineligible payments. The impact of the Stewardship Programme on the level of reported error is discussed later in this statement.

Head of Internal Audit comments

The Head of Internal Audit's view is that the controls in place and reviewed within the context of the 2012-13 internal audit plan demonstrate that the LSC's organisational objectives are underpinned by a control environment that, for the most part, has been 'in control'.

The Head of Internal Audit's overall conclusion is that the LSC has made significant progress during 2012-13 in improving the control environment across cross cutting environmental areas including governance, risk management and counter fraud arrangements, the administration account ('back office control') and the legal aid fund account and this is underlined by the fact that 85% of all audits completed during the year recorded a 'Green' or 'Amber/Green' assessment. Consequently, based on the outcome of the detailed audit work, the Head of Internal Audit believes that a 'Moderate' assurance opinion is appropriate over the adequacy and effectiveness of the system of governance, risk management and internal control for the year ending 31 March 2013.

For the organisation to realise the full benefits of transformational efficiency, there will be an increasing reliance on IDP and system controls with a corresponding reduction in reliance on manual intervention controls in the year ahead. This, alongside the establishment of more preventative controls will improve the quality of the control environment and help the organisation strengthen its assurance framework. The Head of Internal Audit is satisfied that management recognise this and have plans in place to address these issues in the coming year.

Despite the overall moderate assurance opinion the Head of Internal Audit has however emphasised the following:

- Management have indicated that a number of control exceptions will be addressed through processes and procedures introduced as part of the transition to Executive Agency status and closer working with the MoJ. It is essential management ensure that this is the case from 1 April 2013.
- A large number of risks are mitigated by manual controls which are labour intensive. Whilst controls are in place to address the overall process objectives of the organisation these processes and controls are predominantly manual and are heavily reliant on detective controls. Whilst we understand that the introduction of CCMS was planned to introduce levels of automated controls, what we have seen to date shows that this platform is not being fully utilised.

Significant control weaknesses

Direction of travel to prior year

In the 2011-12 Governance statement, I outlined a number of control weaknesses which impacted on the LSC's day to day delivery. I am pleased to report significant progress against all of these areas as the LSC and the LAA continue to invest in and improve our systems, processes and controls to ensure legal aid is delivered efficiently and effectively.

Regularity of payments to providers

In 2011-12, the LSC's accounts were qualified by the NAO on the grounds of material, irregular payments made to our providers. In 2012-13, the LSC continued to deliver its Financial Stewardship Programme designed to improve its systems, processes and controls in granting legal aid and in paying providers.

Work included reviewing a significant sample of legal aid cases designed to establish the level and value of errors made in assessing the eligibility of clients and the accuracy of payments. The results of this work informed the Financial Stewardship Programme of any control

Financial reports 2012-13

Governance statement *(continued)*

weaknesses within our systems, processes and controls. We enhanced and strengthened controls during the course of the year to tackle any weaknesses within our control environment. We have worked closely with our providers to deliver training and advice in order to tackle the root causes of common errors within legal aid cases. Additionally, where ineligible or inaccurate payments were made, we also extended our work to recover money from providers.

As a result of this work the overall level of net error has reduced to £14.5 million in 2012-13, a reduction of over 59% on the previous year. We are therefore delighted that the Comptroller & Auditor General has concluded that it is appropriate to remove the regularity qualification from his annual audit opinion which had been in place since 2008-09.

Information assurance and data security

LSC had in place data security and information assurance arrangements which were compliant with *HMG's Security Policy Framework*. Information risk was managed through Information Asset Owners (IAO) who regularly compiled returns of information "owned" by them, together with risk registers setting out the assessment and mitigation of information risks.

The LSC's data protection policies ensured the protection of all data, especially personal data, used by the organisation. The LSC operated a data incident reporting policy which ensured swift reporting of any incidents, and considered the need to inform the ICO of any incidents during the course of the year. No reports were made to the ICO during 2012-13.

For information on data security incidents please refer to page 29 of the Management Commentary.

Business continuity planning

All offices maintained an up to date Business Continuity Plan. These have been tested to ensure their effectiveness in the event of an incident. Sufficient and adequate plans were in place throughout the year to allow for the continued delivery of legal aid in the event of a significant incident.

In addition, the LSC maintained disaster recovery plans which were assessed for effectiveness during the year, and were considered to be sufficient to enable disaster recovery to allow for the continued delivery of legal aid.

Transition to the Legal Aid Agency

On 1 April 2013, the LAA was launched as an executive agency of the MoJ and as a successor body to the LSC, which was abolished on the same day. I have been appointed as the Chief Executive and Accounting Officer of the LAA. In addition, I have also been designated by the Lord Chancellor as the Director of Legal Aid Casework, the statutory office set out in the LASPO Act 2012.

The transition from the LSC to the LAA was governed by an Executive Agency Transition programme. The programme included all aspects of transition including transferring staff to the Civil Service, putting in place appropriate governance and control arrangements for the LAA, and developing a structure to ensure the independence of legal aid decision making. During the course of the year the Programme Board monitored progress against key targets and milestones as well as monitored risks which could have prevented the successful delivery of the programme. I am pleased to report that the programme was completed in line with our plans, and the LAA successfully launched on 1 April 2013.

During autumn 2012, three Non Executive Board Members were appointed to the LAA: John Grosvenor, Eric Gregory, and Andrew Lockley. During the final quarter of 2012-13, the newly appointed Non Executives undertook a comprehensive induction programme and John Grosvenor, the Chair of the LAA's Audit Committee, joined the LSC's Audit Committee as a Non Executive member. The LAA Board met for the first time on 3 April 2013. Since then regular Board meetings have been held to oversee the LAA's performance and to support management in driving the LAA's purpose and strategic objectives.

Governance statement *(continued)*

Further information about the LAA, our Board and senior management team and our work is available on our website at http://www.justice.gov.uk/legal-aid

Summary of the LSC's assurance position

The LSC faced a significant challenge in 2012-13 to implement its demanding change programme while continuing to improve its operational and financial position. It met those challenges successfully although further significant challenges face the new Agency in 2013-14. We successfully implemented the first phase of LAR and the transition to Executive Agency status. Significant progress was also made in implementation of the IDP.

The removal of the regularity qualification has underlined the significant improvements that the LSC made to its financial and operational systems. We recognise that we still have further work to complete. We will continue to identify any areas of weakness and address these, including through the final implementation of the IDP. I am confident that as the LAA we will continue to build upon the significant improvements that we have already made.

Signed for and on behalf of the Legal Services Commission

Matthew Coats
Chief Executive and Accounting Officer of the Legal Services Commission to 1 April 2013 and of the Legal Aid Agency from 1 April 2013.

20 June 2013

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

I certify that I have audited the financial statements of Legal Services Commission's Community Legal Service Fund and Criminal Defence Service for the year ended 31 March 2013 under the Access to Justice Act 1999. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Commission, Accounting Officer and auditor

As explained more fully in the Statement of the Commission and Accounting Officer's Responsibilities, the Commission and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Access to Justice Act 1999. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Community Legal Service Fund and Criminal Defence Service's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Legal Services Commission; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Community Legal Service Fund and the Criminal Defence Service's affairs as at 31 March 2013 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Access to Justice Act 1999 and directions made thereunder by the Lord Chancellor.

Opinion on other matters

In my opinion the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

Without qualifying my opinion, I draw attention to my Report at pages 52 to 55. The purpose of my Report is to explain why I have provided an unmodified regularity opinion for the year ended 31 March 2013.

Amyas C E Morse
Comptroller and Auditor General

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

21 June 2013

Report of the Comptroller and Auditor General to the Houses of Parliament on the Community Legal Service Fund and Criminal Defence Service Accounts for the year ended 31 March 2013

Introduction

1. The Legal Services Commission (LSC) was an executive Non Departmental Public Body (NDPB) of the Ministry of Justice. LSC was responsible for the provision of legal aid in England and Wales through the Community Legal Service Fund (for civil cases) and the Criminal Defence Service (for criminal cases).

2. Under the Legal Aid, Sentencing and Punishment of Offenders (LASPO) Act 2012, LSC was abolished on 1 April 2013 and its assets, liabilities and functions transferred to the Legal Aid Agency (LAA) within the Ministry Of Justice.

Audit opinion

3. In each year between 2008-09 and 2011-12 I qualified my opinion on the regularity of the transactions underlying the annual financial statements of LSC because material amounts were paid to:
   - legal aid providers where the claim is not in compliance with statutory scheme rules; and
   - legal aid providers after granting of legal aid to applicants who were not eligible or whose eligibility could not be proven.

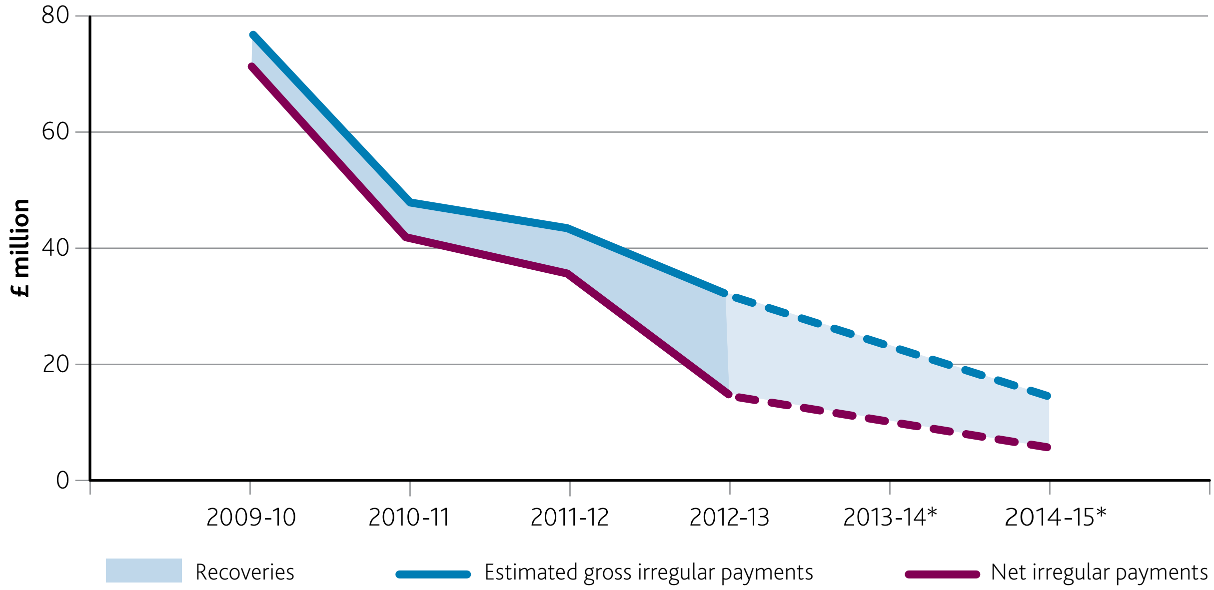
4. I have given a clear opinion on the regularity of transactions for the year ended 31 March 2013. Whilst I identified an estimated £14.5 million of irregular payments (2011-12 £35.6 million), I do not consider this amount to be material in the context of annual payments of £2.1 billion.

5. My clear opinion reflects the significant improvements made by LSC in their stewardship of the fund, risk management and internal controls. This report highlights the improvements and the further challenges faced by LAA.

Areas of improvement

6. The value of irregular payments has reduced significantly over time, as illustrated in Figure 1.

Figure 1: Estimated irregular payments over time



* Projections based on LSC forecast (unaudited)

7. My audit found that the substantial reduction in irregular payments is due to:
   - A strengthened control environment and assurance framework to detect and recover irregular payments made to suppliers in the current and previous years;
   - More robust, risk-based management of legal aid providers through contract management and routine, targeted compliance reviews; and
   - Management being proactive in addressing the underlying causes of irregularity.

8. LSC developed a more systematic assurance framework that is risk-based and supported by more robust management information. These improvements extend to more active supplier management, a statistically sound compliance testing methodology, and improved communications and feedback to suppliers on errors, trends and emerging issues.

9. The risk-based approach was enhanced in 2012-13, for example, with tools to analyse provider claims for unusual or higher risk billing patterns and more targeted reviews of high risk suppliers. There is also greater focus on managing providers to get claims right first time. For example, testing of case files and identifying recoveries during routine supplier visits, and more active supplier communication and education.

10. The frequency of LSC's sample testing of transactions has also increased to monthly (previously quarterly), allowing more timely identification of errors and improving management's ability to identify trends and correct process errors within the financial year.

11. LAA is planning to make further improvements. These include shifting from detective to more preventative controls, such as improved validation of claims to prevent inaccurate submissions and development of standard operating procedures and checklists to improve caseworker performance.

Financial reports 2012-13

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

Progress over time

12. Irregular payments reduced by over 30 per cent in the year to 31 March 2013 to £31.1 million. LSC also increased recoveries of identified irregular payments made to suppliers in current and previous years, from £10 million in 2011-12 to £16.6 million in 2012-13. Significant trends in the irregular payments are outlined below.

Payments not in accordance with statutory scheme rules

13. Key areas of improvement were on assistance in magistrates' court criminal proceedings and civil legal help schemes. Gross irregular payments have reduced to £12.7 million, from £24.4 million in 2011-12 and recoveries of overpayments in previous periods have increased on these schemes by £5.3 million to £14.9 million. Reductions in gross irregular payments have also been made in the other areas.

14. Overall, LSC succeeded in reducing gross irregular payments to less than 1 per cent of the total cash payments made in 2012-13.

Payments where applicants were not eligible or eligibility could not be proved

15. Irregular payments have reduced by £4.8 million, primarily due to a large reduction in irregular payments on civil representation cases. However, irregular payments on other means-tested schemes for legal help and criminal cases have increased.

Irregular receipts

16. In addition to the irregular payments I also identified £1.2 million of irregular receipts in contributions levied on funded clients. This represents a substantial reduction from the £3.4 million in the previous year.

Future challenges

17. LAA faces several on-going and significant challenges in 2013-14 and beyond including: continuing reforms to legal aid, completing the implementation of a new civil case management and finance system, reduced funding and resources, and continuing to strengthen the control framework.

18. The substantial reforms introduced under the LASPO Act 2012 have yet to fully materialise. Whilst some changes may be beneficial to LAA's stewardship of the fund, such as the reduced scope of legal aid, the reforms present significant challenges, for example maintaining accurate assessments of eligibility as changes to entitlement are introduced. There will also be further changes, such as to the procurement of criminal legal aid, and to the benefits systems, which will have a substantial impact on assessment of eligibility for legal aid.

19. A new case management and finance system was introduced during 2012-13. This should improve further the quality, reliability and timeliness of management and financial information. However, the on-going transition to the new system presents significant risks to LAA.

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

Conclusion

20. LAA starts with an improved assurance framework embedded within the business and significantly reduced levels of irregularity. This is underpinned by more robust supplier management, risk-based assurance activity and more routine recovery of irregular payments.

21. As outlined above, some significant challenges remain for LAA, to ensure that progress and improvements are maintained and sustainable. This includes the implementation of the case management and finance system, which is central to LAA's more preventative and 'right first time' control framework.

22. LAA must also keep driving down irregularity through more preventative (pre-payment) checks and maintain the routine recovery of irregular payments made to suppliers in previous years. These are an essential part of LAA's management of suppliers and protection of taxpayers' funds.

23. Gross irregularity remains high for civil legal help schemes and has increased for some schemes based on eligibility (means-testing). LAA should focus effort on these areas, particularly on the prevention of errors during means assessments. Further improvement is challenging due to the inherent difficulties of administering means-tested payments, and from the complexity of the legal aid schemes.

Amyas C E Morse
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
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21 June 2013

Financial reports 2012-13

Financial statements of the Community Legal Service Fund and the Criminal Defence Service

Community Legal Service Fund and Criminal Defence Service

Statement of Comprehensive Net Expenditure

For the year ended 31 March 2013

	Note	2012-13 CLSF £000	2012-13 CDS £000	2012-13 Total £000	2011-12 CLSF £000	2011-12 CDS £000	2011-12 Total £000
Expenditure	3	**1,147,641**	**1,016,634**	**2,164,275**	1,195,349	1,104,357	2,299,706
Income	4	**(198,888)**	**(41,641)**	**(240,529)**	(216,200)	(3,662)	(219,862)
Net expenditure		**948,753**	**974,993**	**1,923,746**	979,149	1,100,695	2,079,844
Interest receivable		**(8,689)**	**-**	**(8,689)**	(6,497)	-	(6,497)
Interest payable		**139**	**-**	**139**	90	-	90
Other finance costs		**-**	**33**	**33**	-	7	7
Tax expense	5	**1,488**	**-**	**1,488**	4,908	-	4,908
Net expenditure after interest and tax		**941,691**	**975,026**	**1,916,717**	977,650	1,100,702	2,078,352

Other comprehensive expenditure

	2012-13 CLSF £000	2012-13 CDS £000	2012-13 Total £000	2011-12 CLSF £000	2011-12 CDS £000	2011-12 Total £000
Total comprehensive expenditure for the year	**941,691**	**975,026**	**1,916,717**	977,650	1,100,702	2,078,352

All income and expenditure was derived from continuing operations.

The notes on pages 60 to 78 form part of these financial statements.

Community Legal Service Fund and Criminal Defence Service

Statement of Financial Position

At 31 March 2013

	Note	2013 CLSF £000	2013 CDS £000	2013 Total £000	2012 CLSF £000	2012 CDS £000	2012 Total £000
Current assets							
Trade and other receivables	7	**93,843**	**7,799**	**101,642**	99,429	4,409	103,838
Cash and cash equivalents	6	**19,923**	**46**	**19,969**	2,191	3,575	5,766
Total current assets		**113,766**	**7,845**	**121,611**	101,620	7,984	109,604
Total assets		**113,766**	**7,845**	**121,611**	101,620	7,984	109,604
Current liabilities							
Trade and other payables	8	**(206,834)**	**(80,586)**	**(287,420)**	(209,012)	(115,735)	(324,747)
Provisions for liabilities and charges	10	**(366,149)**	**(258,372)**	**(624,521)**	(371,522)	(278,880)	(650,402)
Total current liabilities		**(572,983)**	**(338,958)**	**(911,941)**	(580,534)	(394,615)	(975,149)
Total assets less current liabilities		**(459,217)**	**(331,113)**	**(790,330)**	(478,914)	(386,631)	(865,545)
Non current liabilities							
Provisions for liabilities and charges	10	**-**	**(216)**	**(216)**	-	(241)	(241)
Total non current liabilities		**-**	**(216)**	**(216)**	-	(241)	(241)
Assets less liabilities		**(459,217)**	**(331,329)**	**(790,546)**	(478,914)	(386,872)	(865,786)
Taxpayers' equity							
General Reserve		**(459,217)**	**(331,329)**	**(790,546)**	(478,914)	(386,872)	(865,786)
		(459,217)	**(331,329)**	**(790,546)**	(478,914)	(386,872)	(865,786)

Matthew Coats
Chief Executive and Accounting Officer of the Legal Services Commission to 1 April 2013 and of the Legal Aid Agency from 1 April 2013

20 June 2013

The notes on pages 60 to 78 form part of these financial statements.

Financial reports 2012-13

Financial statements of the Community Legal Service Fund and the Criminal Defence Service *(continued)*

Community Legal Service Fund and Criminal Defence Service
Statement of Cash Flows
For the year ended 31 March 2013

	Note	**2012-13 CLSF £000**	**2012-13 CDS £000**	**2012-13 Total £000**	2011-12 CLSF £000	2011-12 CDS £000	2011-12 Total £000
Cash flows from operating activities							
Net expenditure after interest and tax		**(941,691)**	**(975,026)**	**(1,916,717)**	(977,650)	(1,100,702)	(2,078,352)
Adjustments for:							
Decrease/(increase) in trade and other receivables	7	**5,586**	**(3,390)**	**2,196**	(4,055)	6,762	2,707
(Decrease)/increase in trade and other payables	8	**(2,178)**	**(35,149)**	**(37,327)**	(22,244)	19,685	(2,559)
(Decrease)/increase in provisions	10	**(5,373)**	**(20,533)**	**(25,906)**	53,388	(14,524)	38,864
Net cash outflow from operating activities		**(943,656)**	**(1,034,098)**	**(1,977,754)**	(950,561)	(1,088,779)	(2,039,340)
Net cash inflow from investing activities		**-**	**-**	**-**	-	-	-
Cash flows from financing activities							
Grant from the Ministry of Justice		**961,388**	**1,030,569**	**1,991,957**	941,825	1,090,768	2,032,593
Net cash inflow from financing activities		**961,388**	**1,030,569**	**1,991,957**	941,825	1,090,768	2,032,593
Net increase/(decrease) in cash and cash equivalents in the year		**17,732**	**(3,529)**	**14,203**	(8,736)	1,989	(6,747)
Cash and cash equivalents at the beginning of the year	6	**2,191**	**3,575**	**5,766**	10,927	1,586	12,513
Cash and cash equivalents at the end of the year	6	**19,923**	**46**	**19,969**	2,191	3,575	5,766

The notes on pages 60 to 78 form part of these financial statements.

Community Legal Service Fund and Criminal Defence Service

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2013

	CLSF £000	CDS £000	Total £000
Balance at 31 March 2011	(443,089)	(376,938)	(820,027)
Changes in taxpayers' equity for 2011-12			
Total comprehensive expenditure for 2011-12	(977,650)	(1,100,702)	(2,078,352)
Grant from the Ministry of Justice	941,825	1,090,768	2,032,593
Balance at 31 March 2012	(478,914)	(386,872)	(865,786)
Changes in taxpayers' equity for 2012-13			
Total comprehensive expenditure for 2012-13	**(941,691)**	**(975,026)**	**(1,916,717)**
Grant from the Ministry of Justice	**961,388**	**1,030,569**	**1,991,957**
Balance at 31 March 2013	**(459,217)**	**(331,329)**	**(790,546)**

The notes on pages 60 to 78 form part of these financial statements.

Community Legal Service Fund and Criminal Defence Service

Notes to the Financial Statements

For the year ended 31 March 2013

Note 1 - Statement of accounting policies

The financial statements have been prepared in accordance with the 2012-13 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Legal Aid Fund ('the Fund') which comprises the Community Legal Service Fund (CLSF) and Criminal Defence Service (CDS), for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Legal Services Commission (the Commission) for the Fund are described below. They have been applied consistently in dealing with items that are considered material to the financial statements.

a) Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed. These areas include: trade and other receivables (note 7) and provisions for liabilities and charges (note 10).

Programme expenditure

The disclosure of programme expenditure is provided in accordance with FReM requirements. The classification of programme expenditure follows HM Treasury budgetary requirements. The requirements specify that administration and programme expenditure should be shown separately in the Statement of Comprehensive Net Expenditure. The Commission's expenditure shown in these financial statements is programme expenditure as it relates to the provision of front line services.

Going Concern

The Commission was a statutory body established under the Access to Justice Act 1999. The Commission was charged with the responsibility for managing and accounting for the CLSF and the CDS, both of which were legal aid schemes provided for under the Access to Justice Act 1999. The Commission took the view that the going concern concept applies as long as the provisions of the Access to Justice Act 1999 remain extant.

Under the Legal Aid, Sentencing and Punishment of Offenders Act (LASPO) 2012 the Commission was abolished on 1 April 2013. With effect from 1 April 2013 a new body the Legal Aid Agency (LAA), an executive agency of the Ministry of Justice (MoJ), was created to administer legal aid. This Act received Royal Assent on 1 May 2012, and as such the going concern principle has been followed. The Act makes provision for assets, liabilities and staff to transfer to the new Agency.

The future financing of the Agency's activities will be met through voted funding from the Parliament and reported in the Ministry of Justice Main Estimate for 2013-14. This estimate was published on HM Treasury website on 18 April 2013 (2012-13 on 19 April 2012).

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

b) Disclosure of IFRS in issue and major FReM changes

IFRS in issue

The Commission has reviewed the IFRS in issue to determine if it needs to make any disclosures in respect of new IFRS. References to 'new IFRS' includes new Interpretations and any new amendments to IFRS and Interpretations. It has been determined that there are no new IFRS that are relevant to the Fund for the current financial year.

The following new standards, interpretations and amendments which are not yet effective for the public sector may have an impact on the Fund's future accounts.

IAS 1 Presentation of Financial Statements – Other Comprehensive Income (effective for accounting periods beginning on or after 1 July 2012), retains the option to present other comprehensive expenditure on a separate statement from net operating cost items, and to reclassify certain other comprehensive expenditure items to net operating cost. The FReM's adaptation of IAS 1 amendment for public sector application is effective from 1 April 2013.

IFRS 9 Financial Instruments (effective for accounting periods beginning on or after 1 January 2015) addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into two measurement categories; those measured at fair value and those measured at amortised cost. The determination is made at initial recognition and depends on the contractual cash flow characteristics of the instrument and the method in which an entity manages its financial instruments.

IFRS 13 Fair Value Measurement (effective for accounting periods beginning on or after 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements, which are largely aligned between IFRS and UK GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or UK GAAP.

Major FReM changes for 2012-13 and 2013-14

There have been no significant accounting changes during the year and no further significant accounting changes are expected in 2013-14.

c) Income

The Fund's income includes contributions from funded clients, costs recoverable from funded clients or others, including statutory charges, and recoveries of damages. Income is recognised at the point when it is probable that the economic benefits associated with funding a case would flow to the Fund. 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. 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 Fund. The amounts may be recovered from both awarded costs and damages, where applicable. Where the award to the funded client is settled before a court hearing the income is recognised when owing to the fund, with physical transfer of the settled amounts made directly between the two parties in accordance with relevant legislation.

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) employed by the Public Defender Service (PDS), Criminal Defence Service, Defence Solicitor Call Centre, and Community Legal Advice. These staff costs are disclosed in note 3 to the Legal Services Commission Administration financial statements.

e) Grant from the Ministry of Justice (MoJ)

Grants received are accounted for as financing and credited directly to the General Reserve. Grant in Aid is received from the MoJ periodically throughout the year and is accounted for on a cash basis.

f) 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.

Financial reports 2012-13

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

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

g) Provisions

Provisions represent liabilities of uncertain timing or amount. Provisions are recognised when the CLSF and CDS have 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 reported as other finance costs.

Amounts outstanding on funded cases

The CLSF and CDS recognise their liability to pay for work completed at 31 March 2013 but not yet billed. Separate models are run for each legal aid scheme, including Civil Representation, civil Legal Help, Immigration, Crime Higher and Crime Lower. These models are dependent on the nature of information available for each scheme. The provision for amounts outstanding on funded cases is then based on such factors as the number of outstanding cases, the elapsed time on each case and the estimated average costs derived from closed case data. The provision is based on assumptions from the models and the sensitivity of these assumptions is included in note 15 to these financial statements.

Dilapidations

Provision is made for estimated dilapidation costs on leasehold buildings. The provision has been estimated with reference to the condition and location of the buildings and the requirements of the relevant lease. It has then been discounted at the HM Treasury rate of negative 1.8% for short term (up to 5 years), negative 1% for medium term (5 to 10 years), (2012: positive 2.2% for all terms of leases).

h) Leased assets

Operating leases

Leases other than finance leases are classified as operating leases. Rental payments on operating leases are charged to the Statement of Comprehensive Net Expenditure as they fall due.

i) Financial instruments

Financial assets

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

Initial recognition and measurement

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

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

Derecognition

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

Financial liabilities

Initial recognition and measurement

The Fund'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 Fund 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 Fund's financial instruments is determined by using appropriate valuation techniques. Such techniques may include discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details of how they are measured are provided in note 9 to these financial statements.

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

j) Impairment of financial assets

An assessment of whether there is objective evidence of impairment is carried out for portfolios of assets ('collective impairment') at the Statement of Financial Position date.

An assessment of collective impairment is made of financial assets with similar risk characteristics. For these assets, the Fund'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 Fund's receivables is included at note 15 to these financial statements.

k) Accounting for Value Added Tax (VAT)

Irrecoverable VAT is charged to the relevant expenditure category. Income and expenditure is otherwise shown net of VAT.

l) Third party assets

Deposit accounts for funded clients

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

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

Interest received on the deposit account is accounted for in the financial statements of the Commission.

Crown Court Means Testing (CCMT)

Contributions may be payable to the Fund towards the cost of Crown Court proceedings in those cases that have been subject to means testing. The Commission places these funds on deposit and accounts for them as funds held on behalf of third parties. 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 Fund. If the applicant is found not guilty, contributions paid to the Fund are refunded including interest calculated at 2% per annum from the date of payment.

Interest received on the CCMT contributions account is accounted for in the financial statements of the Commission.

The movement in third party funds is reported in note 16 to these financial statements.

m) Employee benefits

Under IAS19 *Employee Benefits* all staff costs must be recorded as an expense as soon as the organisation is obliged to pay them. This includes the cost of any untaken leave as at the year end. The cost of untaken leave is derived from annual leave records.

n) Tax expense

The CLSF is liable for corporation tax on statutory charge interest receipts on a cash basis and withholding tax on damages on deposit interest payments to clients from 9 November 2011.

o) General Reserve

Funding received from the MoJ is credited to the General Reserve within Taxpayers' Equity in the Statement of Financial Position upon receipt of funds.

p) Contingent liabilities

A contingent liability is a possible obligation 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 Commission, or a present obligation that is not recognised because it is not probable that a payment will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

In accordance with IAS 37, it is the Commission's policy to disclose a contingent liability unless the possibility of payment is remote.

q) Events after the reporting period

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

Financial reports 2012-13

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

Note 2 -Segmental analysis

We use the term 'the Fund' to describe the total of the CLSF and CDS. We are required to disclose our accounts by these two elements of the Fund by the Access to Justice Act 1999.

Management however, further subdivide these two parts of the Fund for the purposes of operational decision making and reporting to the LSC board. The CLSF is split into Legal Help and Civil Representation. The CDS is split into Crime Higher and Crime Lower.

We have assessed these four aspects of the Fund to be reportable segments under IFRS 8 Segment reporting.

Other non segmental results represent the costs for Public Defender Service, Grants and Direct Services, and receivable write off and impairment. These items are not included in the reporting provided to the Chief Operating Decision Maker.

	Note	2012-13 Legal Help £000	2012-13 Civil Rep £000	2012-13 Crime Lower £000	2012-13 Crime Higher £000	2012-13 Other Non Segmental £000	2012-13 Total £000
Expenditure	3	184,026	937,611	378,699	601,579	62,360	2,164,275
Income	4	(12)	(198,876)	-	(41,641)	-	(240,529)
Net expenditure		184,014	738,735	378,699	559,938	62,360	1,923,746
Cash expenditure:							
Interest receivable		-	(8,689)	-	-	-	(8,689)
Interest payable		-	139	-	-	-	139
Other finance costs		-	-	33	-	-	33
Tax expense	5	-	1,488	-	-	-	1,488
Net expenditure after interest		184,014	731,673	378,732	559,938	62,360	1,916,717

	Note	2011-12 Legal Help £000	2011-12 Civil Rep £000	2011-12 Crime Lower £000	2011-12 Crime Higher £000	2011-12 Other Non Segmental £000	2011-12 Total £000
Expenditure	3	222,414	951,999	424,679	672,684	27,930	2,299,706
Income	4	(19)	(216,181)	-	(3,662)	-	(219,862)
Net expenditure		222,395	735,818	424,679	669,022	27,930	2,079,844
Cash expenditure:							
Interest receivable		-	(6,497)	-	-	-	(6,497)
Interest payable		-	90	-	-	-	90
Other finance costs		-	-	7	-	-	7
Tax expense	5	-	4,908	-	-	-	4,908
Net expenditure after interest		222,395	734,319	424,686	669,022	27,930	2,078,352

Note 3 - Operating expenditure

	2012-13 CLSF £000	2012-13 CDS £000	2012-13 Total £000	2011-12 CLSF £000	2011-12 CDS £000	2011-12 Total £000
Civil Representation						
Solicitors' charges, counsel fees and disbursements	**935,286**	**-**	**935,286**	947,608	-	947,608
Refund of contributions	**1,376**	**-**	**1,376**	2,470	-	2,470
Costs of successful unassisted parties	**949**	**-**	**949**	1,921	-	1,921
	937,611	**-**	**937,611**	951,999	-	951,999
Civil Legal Help						
Solicitors' charges, counsel fees and disbursements	**166,349**	**-**	**166,349**	200,948	-	200,948
Grants and Direct Services	**17,677**	**-**	**17,677**	21,466	-	21,466
	184,026	**-**	**184,026**	222,414	-	222,414
Criminal cases						
Solicitors' charges, counsel fees and disbursements - crime higher	**-**	**601,579**	**601,579**	-	672,684	672,684
Solicitors' charges, counsel fees and disbursements - crime lower	**-**	**376,751**	**376,751**	-	422,732	422,732
Public Defender Service	**-**	**1,949**	**1,949**	-	1,947	1,947
Grants and Direct Services	**-**	**5,728**	**5,728**	-	6,384	6,384
	-	**986,007**	**986,007**	-	1,103,747	1,103,747
Receivables write-off	**30,486**	**253**	**30,739**	4,192	166	4,358
Receivables impairment	**(4,482)**	**30,374**	**25,892**	16,744	444	17,188
Total	**1,147,641**	**1,016,634**	**2,164,275**	1,195,349	1,104,357	2,299,706

An explanation for the changes in CLSF and CDS expenditure is included in the management commentary (page 26).

Staff costs included within operating expenditure, together with the numbers employed, are disclosed in note 3 of the Legal Services Commission Administration financial statements.

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

Note 4 - Income

	2012-13 CLSF £000	2012-13 CDS £000	2012-13 Total £000	2011-12 CLSF £000	2011-12 CDS £000	2011-12 Total £000
Civil Representation						
Contributions by funded clients	**24,326**	**-**	**24,326**	24,606	-	24,606
Costs recoverable	**142,017**	**-**	**142,017**	150,073	-	150,073
Recoveries from damages and statutory charge	**32,533**	**-**	**32,533**	41,502	-	41,502
	198,876	**-**	**198,876**	216,181	-	216,181
Civil Legal Help						
Costs recoverable	**12**	**-**	**12**	19	-	19
	12	**-**	**12**	19	-	19
Criminal cases						
Crown Court recoveries	**-**	**41,419**	**41,419**	-	1,882	1,882
Recovery of defence costs orders	**-**	**222**	**222**	-	1,780	1,780
	-	**41,641**	**41,641**	-	3,662	3,662
Total	**198,888**	**41,641**	**240,529**	216,200	3,662	219,862

Note 5 - Tax expense

	2012-13 CLSF £000	2012-13 CDS £000	2012-13 Total £000	2011-12 CLSF £000	2011-12 CDS £000	2011-12 Total £000
Civil Representation						
Corporation tax on statutory charge interest receipts	**1,420**	**-**	**1,420**	4,891	-	4,891
Withholding tax on damages on deposit interest payments to clients	**68**	**-**	**68**	17	-	17
Total	**1,488**	**-**	**1,488**	4,908	-	4,908

The Fund is liable for corporation tax on statutory charge interest receipts on a cash basis. Following a settlement with HM Revenue and Customs in 2012 the amount owing was calculated for the prior three years as at 31 March 2012. The amount owing for 2012-13 of £1,420k has been calculated using the applicable rate of corporation tax which applies to the MoJ, which is 24%. The Fund is also liable for £68k withholding tax on damages on deposit interest payments to clients. The applicable rate of withholding tax is 20%.

Note 6 - Cash and cash equivalents

	2012-13 CLSF £000	2012-13 CDS £000	2012-13 Total £000	2011-12 CLSF £000	2011-12 CDS £000	2011-12 Total £000
Cash and cash equivalents						
Balance at 1 April	**2,191**	**3,575**	**5,766**	10,927	1,586	12,513
Net change in cash and cash equivalent balances	**17,732**	**(3,529)**	**14,203**	(8,736)	1,989	(6,747)
Balance at 31 March	**19,923**	**46**	**19,969**	2,191	3,575	5,766

Of the £19,969k held as cash and cash equivalents at 31 March 2013 £8,665k was held with the GBS and £11,304k was held with commercial banks.

Note 7 - Trade and other receivables

Amounts falling due within one year:

	2012-13 CLSF £000	2012-13 CDS £000	2012-13 Total £000	2011-12 CLSF £000	2011-12 CDS £000	2011-12 Total £000
Contributions due from funded clients	**2,771**	**-**	**2,771**	2,486	-	2,486
Costs to be recovered	**591**	**-**	**591**	586	-	586
Statutory charge *	**66,656**	**-**	**66,656**	65,716	-	65,716
Damages	**72**	**-**	**72**	626	-	626
Amounts due from service providers	**23,753**	**4,136**	**27,889**	30,015	4,074	34,089
Recovery of defence costs orders	**-**	**3,663**	**3,663**	-	335	335
	93,843	**7,799**	**101,642**	99,429	4,409	103,838

Trade and other receivables are stated net of impairment at 31 March 2013. The valuation of trade and other receivables includes an element of estimation which is discussed further in note 15 of these financial statements. An amount is included in 'amounts due from service providers' where a supplier has been paid in advance of claims and estimated work not invoiced. The valuation of work not invoiced is discussed further in note 10 of these financial statements.

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

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

Note 7 - Trade and other receivables *(continued)*

The net amount of statutory charge debt is:

	2012-13 CLSF £000	2012-13 CDS £000	2012-13 Total £000	2011-12 CLSF £000	2011-12 CDS £000	2011-12 Total £000
Statutory charge on damages	47,083	-	47,083	31,353	-	31,353
Interest accrued to date	19,573	-	19,573	34,363	-	34,363
	66,656	-	66,656	65,716	-	65,716

Trade and other receivables secured by a charge may be deferred until the property has been sold. Although all receivables are due within one year, the majority of receivables will be paid after one year.

All amounts falling due within one year are to bodies external to government.

Note 8 - Trade payables and other liabilities

Amounts falling due within one year:

	2012-13 CLSF £000	2012-13 CDS £000	2012-13 Total £000	2011-12 CLSF £000	2011-12 CDS £000	2011-12 Total £000
Amounts due to solicitors, counsel and advice agencies	70,154	79,717	149,871	57,274	115,487	172,761
Contribution refunds due to funded clients	1,625	-	1,625	2,100	-	2,100
Amounts due to the Legal Services Commission Administration Account	522	848	1,370	689	212	901
Accruals and deferred income	133,930	21	133,951	144,041	36	144,077
Corporation and withholding taxes	603	-	603	4,908	-	4,908
	206,834	80,586	287,420	209,012	115,735	324,747

All payables have a remaining life of one year or less, and the carrying amount is deemed to reflect fair value.

Amounts falling due within one year by organisational type:

	2012-13 CLSF £000	2012-13 CDS £000	2012-13 Total £000	2011-12 CLSF £000	2011-12 CDS £000	2011-12 Total £000
Other central government bodies	1,125	848	1,973	5,597	212	5,809
Bodies external to government	205,709	79,738	285,447	203,415	115,523	318,938
	206,834	80,586	287,420	209,012	115,735	324,747

Note 9 - Fair values

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

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

Carrying amounts and fair values	**2012-13 CLSF £000**	**2012-13 CDS £000**	**2012-13 Total £000**	2011-12 CLSF £000	2011-12 CDS £000	2011-12 Total £000
Trade and other receivables	**93,843**	**7,799**	**101,642**	99,429	4,409	103,838
Cash and cash equivalents	**19,923**	**46**	**19,969**	2,191	3,575	5,766
Trade payables and other liabilities	**(206,834)**	**(80,586)**	**(287,420)**	(209,012)	(115,735)	(324,747)
Total at 31 March	**(93,068)**	**(72,741)**	**(165,809)**	(107,392)	(107,751)	(215,143)

Trade and other receivables have been discounted over the period from the reporting date to the expected date of collection. This has a material impact on their present value. To take account of this time value of money effect an estimation technique has been used, discounting all receivable balances over periods commensurate with historical cash flow patterns for each class of receivable at a rate of 2.2% per annum (2012: 2.2% p.a.). The discount rate used is the HM Treasury discount rate. The estimation technique used assumes that the timing of future cash flows will follow historical trends.

Fair value hierarchy

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

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

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

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

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

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

Note 10 - Provisions for liabilities and charges

	CLS £000	CDS £000	Total £000
Current provision for amounts outstanding on funded cases			
Balance at 1 April 2012	**371,522**	**278,880**	**650,402**
Provided in year	**1,101,635**	**978,330**	**2,079,965**
Provisions utilised in the year	**(1,107,008)**	**(998,896)**	**(2,105,904)**
Balance at 31 March 2013	**366,149**	**258,314**	**624,463**
Current provision for dilapidations			
Balance at 1 April 2012	**-**	**-**	**-**
Transfer from non current provision	**-**	**58**	**58**
Provisions utilised in the year	**-**	**-**	**-**
Balance at 31 March 2013	**-**	**58**	**58**
Total current provisions	**366,149**	**258,372**	**624,521**
Non current provision for dilapidations			
Balance at 1 April 2012	**-**	**241**	**241**
Transfer to current provision	**-**	**(58)**	**(58)**
Finance charges	**-**	**33**	**33**
Balance at 31 March 2013	**-**	**216**	**216**

	CLS £000	CDS £000	Total £000
Current provision for amounts outstanding on funded cases			
Balance at 1 April 2011	318,134	293,411	611,545
Provided in year	1,148,556	1,095,416	2,243,972
Provisions utilised in the year	(1,095,168)	(1,109,947)	(2,205,115)
Balance at 31 March 2012	371,522	278,880	650,402
Non current provision for dilapidations			
Balance at 1 April 2011	-	234	234
Finance charges	-	7	7
Balance at 31 March 2012	-	241	241

The Commission estimates the value of unbilled live cases each year to arrive at the amounts disclosed within the accounts as a provision. The amount is an estimate of the expenditure required to settle any obligation at the end of the reporting date. In estimating the provision, the Commission has adopted prudent measurement techniques based on the latest data available which are discussed further in note 15 of these financial statements.

Note 10 - Provisions for liabilities and charges *(continued)*

The dilapidations provision relates to leasehold premises occupied by the PDS. The costs are expected to be incurred between 2013 and 2019 as each lease expires.

Analysis of expected timing of discounted flows	Provision for amounts outstanding on funded cases	Provision for dilapidations	Provision for amounts outstanding on funded cases	Provision for dilapidations
	CLSF	CLSF	CDS	CDS
	£000	£000	£000	£000
Not later than one year	**366,149**	**-**	**258,314**	**58**
Later than one year and not later than five years	**-**	**-**	**-**	**102**
Later than five years	**-**	**-**	**-**	**114**
Balance at 31 March 2013	**366,149**	**-**	**258,314**	**274**

Based on average historical case lengths, substantially all of the costs are expected to be incurred within the next 12 months and accordingly, no discounting has been used.

Note 11 - Financial commitments

The Fund does not have any financial commitments at 31 March 2013 (2012:nil).

Note 12 - Contingent liabilities

The Fund does not have any contingent liabilities as at 31 March 2013 (2012:nil).

Note 13 - Commitments under operating leases

The total future minimum lease payments under operating leases are shown below:	2011-13	2010-12
	£000	£000
Obligations under operating leases comprise:		
Land and buildings		
Within one year	**81**	93
Between two to five years	**158**	128
Over five years	**18**	15
Total	**257**	236

Operating leases shown in this note relate to the CDS.

Under the terms of the lease agreements, no contingent rents are payable and there are no rights to purchase.

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

Note 14 - Related party transactions

The Commission was a Non Departmental Public Body (NDPB) sponsored by the MoJ. The MoJ is regarded as a related party. During the year, the Commission had various material transactions with the MoJ. The Commission has also had various material transactions with Her Majesty's Courts and Tribunals Service (HMCTS), an agency of the MoJ, relating to work carried out by HMCTS on behalf of the Commission.

The Commission has declared below any immediate connection between the CLSF or the CDS and MoJ Ministers or their close family, or the organisations with which the Ministers or their close family are associated. During 2012-13, the Commissioners, other related parties or their close family members entered into a number of material arms length transactions on normal commercial terms with the Fund. These transactions are also detailed below.

Unless otherwise stated, the disclosures relate to transactions in respect of funded work to the supplier who the individual works for and do not reflect the individual's earnings. The figures include payments on account and disbursements, which may be payable to third parties and are stated inclusive of VAT, as this is a cost to the Commission. All transactions are for the year 1 April 2012 to 31 March 2013 unless otherwise stated. The transactions do not include payments received indirectly (e.g. counsel fees claimed by the solicitors which they then pay to counsel). The transactions do not reflect annual earnings as they may include fees for work carried out in previous years, but not billed until this financial year; they may also exclude fees for work carried out in 2012-13, but not yet billed. The transactions for all schemes represent payments made.

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

		Transactions £
Commissioners and related parties		
Dr David Wolfe QC	(1) Dr David Wolfe QC is a barrister who receives payments in respect of legal aid casework.	74,208
	(2) Amanda Illing is married to Dr David Wolfe QC, a Commissioner. Amanda was the Practice Director at Hardwicke Chambers until November 2012 and then the Chief Executive. Barristers at Hardwicke Chambers contribute a percentage of their earnings to its central costs which include Amanda Illing's salary. Payments were made to barristers at Hardwicke Chambers in respect of legal aid casework.	662,496
	(3) Amanda Illing has been a board member of The Public Law Project since May 2011. Legal aid payments are made to The Public Law Project.	24,515
Tom Jones	(1) Rhodri Jones is a lawyer with Hugh James Solicitors, to whom legal aid payments are made. Rhodri married Swian Jones, who is Tom Jones's daughter, in September 2012. They had been engaged since June 2011. Rhodri left Hugh James Solicitors on 20th November 2012.	607,559
	(2) Celine Cousin is a lawyer at Geldards, to whom legal aid payments are made. Celine married Owain Jones, who is Tom Jones's son, on 8 December 2012. They had been engaged since July 2011.	61,070

Balances outstanding as at 31 March 2013 have not been disclosed, as these could only be estimated.

Note 15 - Financial risk identification and management

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

Liquidity risk

The Fund is financed by grant received from the MoJ. As such it is not exposed to significant liquidity risks.

Interest rate risk

The Fund is not exposed to significant interest rate risk.

At 31 March 2013, £66.7m (2012: £65.7m) of statutory charge debt was due, the principal of which carried a fixed rate of interest. The fair value of these assets, which are not traded, is unaffected by movements in floating interest rates since it is determined by discounting the assets using the HM Treasury rate (currently 2.2%) over the expected collection period.

Money received by the CLSF on behalf of funded clients is held on deposit until the case is concluded. Interest is paid to funded clients by reference to the London Inter Bank Offered Rate (LIBOR). To offset the interest payable, £9m of the total deposit account balance is held with Barclays Bank Plc and managed by Barclays Wealth Division through their Liquidity Management Service. The balance is held as cash. Funds are available at 24 hours' notice. The rate earned by these instruments may fluctuate and differ from the rate paid out which is based on LIBOR. However, the short maturity period of the instruments limits any risk arising from adverse rates earned.

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

Foreign currency risk

The Fund's operating activities are denominated, and the financial statements are prepared, in Sterling. The Fund procures legal aid in England and Wales. The Fund is not exposed to any foreign currency risks.

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 Fund 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 2013. The Fund considers its maximum exposure to credit risk to be:

	2012-13 £000	2011-12 £000
Credit risk		
Cash and cash equivalents	**19,969**	5,766
Trade and other receivables	**101,642**	103,838
	121,611	109,604
Third party assets	**20,950**	21,121
	142,561	130,725

As at 31 March 2013 there were no financial guarantees or third party obligations, other than amounts held as damages on deposit and Crown Court means contributions, that increased the credit risk of the financial assets set out above.

The Commission uses market knowledge and changes in credit ratings to identify significant changes to the financial profile of its counterparties.

Trade receivables and other current assets

The Commission has an inherent risk within trade receivables and other current assets, as the Fund is not predisposed to straightforward cash collections. The Commission recognises this risk and mitigates it in the case of statutory charge debts, where repayment of the debt may be deferred, by securing land charges and using active credit management policies to recover unsecured debts. In some cases the debt collection activities are outsourced to commercial debt collectors. The size of the risk is reflected in the receivables impairment provision which totals £187.2m (2012: £161.3m), comprising CLSF £154.0m (2012: £158.5m) and CDS £33.2m (2012: £2.8m).

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

Note 15 - Financial risk identification and management *(continued)*

The majority of the Fund's trade and other receivables are the result of a statutory charge, i.e. £66.7m (2012: £65.7m) out of a total receivables balance after impairment of £101.6m (2012: £103.8m). 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 Fund provides for impairment of receivables based on historical cash collection experience and management assessment of likely recoveries, for each category of debt. Consideration is given to macroeconomic factors, such as the downturn in the economy, and inherent risks, such as potential changes to recoveries arising from revisions to legal aid schemes, in assessing the levels of impairment provision.

The LSC's impairment model uses historical recovery profiles by debt category to estimate the provision required against debt balances. The impairment model is underpinned by specific assumptions including: the maximum life of debt is 10 years with the exception of statutory charges where this has been uplifted to 16 years, income is received against debt evenly throughout the year, and the discount rate is 2.2%. The impact of the following reasonable possible alternatives to these assumptions has been considered:

- Maximum life of debt +/- 1 year.
- Income received against a debt evenly throughout the year, rather than at the end of the year.
- Discount rate. This rate is set by HM Treasury and is not subject to management judgement and so has not been calculated.
- Predicted income receipts used to calculate the impairment provision cashflows +/- 10%.

		Increase/(decrease) in net financial asset	
Assumptions tested	Assumption	2012-13 £m	2011-12 £m
Maximum life of debt	+1 year	0.3	0.7
Maximum life of debt	-1 year	(0.4)	(0.9)
Income received	Evenly through the year	0.9	1.0
Predicted income receipts	+10%	8.5	8.9
Predicted income receipts	-10%	(8.5)	(8.9)

Using these reasonably possible alternative assumptions, the fair value of the financial assets at 31 March 2013 could be higher by £9.7m (2012: £10.6m) or lower by £8.9m (2012: £9.8m).

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

Note 15 - Financial risk identification and management *(continued)*

Provisions for liabilities and charges

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

- price profiles +/- 6%
- quantity profiles +/- up to 5%
- forecast spend +/- 2%

Assumptions tested	Increase in net financial liability		(Decrease) in net financial liability	
	Assumption	£m	Assumption	£m
Price profiles	+ 6%	5.4	- 6%	(5.4)
Quantity profiles	+ 5%	4.8	- 5%	(4.8)
Forecast spend	+ 2%	5.9	- 2%	(5.9)

Using these reasonably possible alternative assumptions, the fair value of the financial liabilities at 31 March 2013 could be higher by up to £16.1m (2012: £51.9m) or lower by up to £16.1m (2012: £54.7m).

The above assumptions testing excludes the model variables used in the calculation of the Civil Representation work in progress provision of £313.1m (2012: £302.0m).

The Civil Representation work in progress (WIP) provision is calculated on a case by case basis applying historical profiles to each stage of a case for both cost and duration. The estimated case cost is calculated using historical profiles. This cost information is then applied to open cases in order to estimate the provision required. The duration profiles are applied to each open case to estimate the costs incurred to date.

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

- price profiles +3% to -8%
- duration +/- up to 5%

Civil Representation Assumptions tested	Increase		(Decrease)	
	Assumption	£m	Assumption	£m
Price profiles	3%	18.0	-8%	(51.6)
Duration profiles	5%	(6.7)	-5%	7.2

The above inputs are case data driven, with an overlay of management judgement, for example choosing the number of years historical case data to use in creating historical profiles. It should however be noted that the quantum of the Civil Representation WIP provision is such, that relatively small percentage movements in the above inputs could lead to the estimate crystallising at a materially different amount. Furthermore, a significant proportion of certificated work does not operate on a fixed fee basis and as such, case costs can be subject to fluctuations. All assumptions are reviewed periodically and amended where sufficient evidence exists that such action is appropriate. Using these reasonably possible alternative assumptions, the fair value of the financial liabilities at 31 March 2013 could be higher by £25.2m or lower by £58.3m.

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Note 15 - Financial risk identification and management *(continued)*

Cash

Cash balances are maintained with strong investment grade banks or financial institutions. Banks are selected for their credit status and their ability to meet the Fund's day to day banking requirements. The credit ratings are monitored on a continuing basis. The Fund 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 16 - Third party assets

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

	31 March 2012 £000	Gross inflows £000	Gross outflows £000	**31 March 2013 £000**
Monetary assets such as bank balances and monies on deposit	21,121	30,137	(30,308)	**20,950**

Total third party assets are comprised of the following:

Damages

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

	31 March 2012 £000	Gross inflows £000	Gross outflows £000	**31 March 2013 £000**
Monetary assets such as bank balances and monies on deposit	13,532	16,883	(18,532)	**11,883**

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

	31 March 2013 £000	31 March 2012 £000
Cash	**555**	344
Building Society deposits	**5,111**	5,001
Pooled investment funds	**6,217**	8,187
	11,883	13,532

Note 16 - Third party assets *(continued)*

Crown Court Means Testing

The Commission holds CCMT contributions (see note 1 l).

	31 March 2012 £000	Gross inflows £000	Gross outflows £000	**31 March 2013 £000**
Monetary assets such as bank balances and monies on deposit	7,589	13,254	(11,776)	**9,067**

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

	31 March 2013 £000	31 March 2012 £000
Cash	**9,067**	7,589
	9,067	7,589

Note 17 - Accountability notes

Losses statement

During the year we identified 15,649 (2012: 24,299) accounts involving losses totalling £30,739k (2012: £48,096k), comprised of CLSF £30,486k and CDS £253k.

In accordance with *Managing Public Money* individual losses over £250,000 are separately disclosed. There were two (2012: three) supplier balances written off over £250,000 as a result of the suppliers going into administration with no prospect of a dividend. The balances were £360,266 and £270,087 and the debts arose from the normal course of business. There were nil (2012: nil) funded client balances individually written off over £250,000. The Commission has offset these debt write offs against the related impairment provision in full.

There were losses of £310k (2012: nil) in respect to fraudulent activities. All items were investigated in accordance with our counter fraud strategy.

Under the terms of the Unified Contract agreed with the Law Society in April 2008, in respect of historical cases as defined in the contract, providers can opt to accept Payments on Account (PoAs) as the final bill without providing further documentation. As there is no supporting documentation these payments are deemed to be a loss to the Fund. All of these payments on account were accounted for in prior year financial statements. The Commission estimates that 100% of the cases expected to be closed through the Unified Contract agreement have been processed at 31 March 2013.

Note 18 - Events after the reporting period

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

Under the LASPO Act 2012, the Legal Services Commission (LSC) was abolished on 1 April 2013. At this date, the functions, property, rights and liabilities of the CLSF and CDS were transferred in full to the Secretary of State for the MoJ and from that date are the responsibility of the Department's Executive Agency, the LAA.

There are no other subsequent events to report.

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Note 19 - Legal Services Commission closure and creation of the Legal Aid Agency

As a consequence of the LASPO Act 2012, the LSC ceased to exist on 1 April 2013, but its functions and responsibilities transferred in full to the LAA from that date.

The table below details the assets, liabilities and reserves in the closing Statements of Financial Position of the CLSF, CDS and LSC Administration financial statements and their subsequent transfer to the new Agency.

From 1 April 2013 we will cease to report the CLSF and CDS separately from our LSC Administration financial statements and will instead report solely under the LAA.

	LSC Fund 31 March 2013	LSC Admin 31 March 2013	Intercompany Adjustments	LAA 1 April 2013
	£000	£000	£000	£000
Non current assets				
Property Plant and Equipment	-	6,668	-	6,668
Intangible Fixed Assets	-	44,942	-	44,942
Total non current assets	**-**	**51,610**	**-**	**51,610**
Current assets				
Trade and other receivables	101,642	2,872	(1,370)	103,144
Cash and cash equivalents	19,969	3,689	-	23,658
Total current assets	**121,611**	**6,561**	**(1,370)**	**126,802**
Total assets	**121,611**	**58,171**	**(1,370)**	**178,412**
Current liabilities				
Trade and other payables	(287,420)	(23,573)	1,370	(309,623)
Provisions for liabilities and charges	(624,521)	(844)	-	(625,365)
Total current liabilities	**(911,941)**	**(24,417)**	**1,370**	**(934,988)**
Non current liabilities				
Trade and other payables	-	(1,010)	-	(1,010)
Provisions for liabilities and charges	(216)	(2,300)	-	(2,516)
Total non current liabilities	**(216)**	**(3,310)**	**-**	**(3,526)**
Assets less liabilities	**(790,546)**	**30,444**	**-**	**(760,102)**
Taxpayers' equity				
General Reserve	(790,546)	27,953	-	(762,593)
Revaluation Reserve	-	2,491	-	2,491
	(790,546)	**30,444**	**-**	**(760,102)**

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The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Legal Services Commission for the year ended 31 March 2013 under the Access to Justice Act 1999. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Commission, Accounting Officer and auditor

As explained more fully in the Statement of the Commission and Accounting Officer's Responsibilities, the Commission and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Access to Justice Act 1999. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Legal Services Commission's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Legal Services Commission; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Legal Services Commission's affairs as at 31 March 2013 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Access to Justice Act 1999 and directions made thereunder by the Lord Chancellor.

Opinion on other matters

- the part of the Remuneration Report to be audited has been properly prepared in accordance with Lord Chancellor directions made under the Access to Justice Act 1999; and
- In my opinion the information given in the About the Legal Services Commission, Our Performance, Management Commentary and Sustainability Report sections of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Matters on which I report by exception

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

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

Report

Without qualifying my opinion, I draw attention to Note 1a and Note 26 of the financial statements. On 1 April 2013, the Legal Services Commission was abolished under the Legal Aid, Sentencing and Punishment of Offenders Act 2012. As the functions previously provided by the Legal Services Commission will continue to be provided by another public sector entity, it remains appropriate for the financial statements for the Legal Services Commission in respect of the year to 31 March 2013 to be prepared on a going concern basis in accordance with the Government Financial Reporting Manual issued by HM Treasury.

Amyas C E Morse
Comptroller and Auditor General

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

21 June 2013

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Legal Services Commission Administration financial statements

Legal Services Commission
Statement of Comprehensive Net Expenditure

For the year ended 31 March 2013

	Note	2012-13 £000	2011-12 £000
Administration costs			
Employment costs	3	**51,310**	45,844
Other operating charges	8	**40,537**	41,109
Amortisation	6	**6,095**	4,314
Depreciation	7	**2,660**	4,199
Programme costs			
Employment costs - pensions	3	**6,201**	5,567
Impairment of intangible assets		**452**	267
Impairment of property, plant and equipment		**-**	180
Movement in provisions	20	**421**	(218)
		107,676	101,262
Administration income			
Income from activities	12	**(808)**	(689)
Programme income			
Gains on curtailment of pension scheme	4	**-**	(16,276)
Intangible assets (upward)/downwards revaluations		**(197)**	(8)
Property, plant and equipment (upward)/downwards revaluations		**(70)**	(30)
Net expenditure		**106,601**	84,259
Other expenditure			
Other finance costs	10	**408**	184
Tax expense	11	**33**	23
Notional recharge from the Ministry of Justice	13	**6,916**	1,166
Other income			
Interest receivable	9	**(139)**	(90)
Other finance income	10	**(2,586)**	(3,424)
Net expenditure after interest, tax and notional recharges		**111,233**	82,118

The notes on pages 87 to 116 form part of these financial statements.

Legal Services Commission
Statement of Comprehensive Net Expenditure *(continued)*

Other comprehensive expenditure	Note	**2012-13 £000**	2011-12 £000
Net (gain)/loss on revaluation of intangibles		**(2,653)**	(10)
Net (gain)/loss on revaluation of property, plant and equipment		**(539)**	(20)
Decrease/(increase) in surplus - No. 4 Pension Scheme	4	**23,684**	43,154
Decrease/(increase) in surplus - No. 3 Pension Scheme	4	**220**	166
Actuarial (gain)/loss recognised - No. 4 Pension Scheme	4	**(20,698)**	13,910
Actuarial (gain)/loss recognised - No. 3 Pension Scheme	4	**(200)**	(136)
Total comprehensive expenditure for the year		**111,047**	139,182

All income and expenditure was derived from continuing operations.

The notes on pages 87 to 116 form part of these financial statements.

Financial reports 2012-13

Legal Services Commission Administration financial statements *(continued)*

Legal Services Commission
Statement of Financial Position

At 31 March 2013

	Note	2013 £000	2012 £000
Non current assets			
Intangible assets	6	**44,942**	33,305
Property, plant and equipment	7	**6,668**	7,873
Pension asset	4	**-**	5,843
Total non current assets		**51,610**	47,021
Current assets			
Trade and other receivables	14	**2,872**	3,227
Cash and cash equivalents	15	**3,689**	1,068
Total current assets		**6,561**	4,295
Total assets		**58,171**	51,316
Current liabilities			
Trade and other payables	16	**(23,573)**	(20,977)
Provisions for liabilities and charges	20	**(844)**	(532)
Total current liabilities		**(24,417)**	(21,509)
Total assets less current liabilities		**33,754**	29,807
Non current liabilities			
Trade and other payables	16	**(1,010)**	(1,212)
Provisions for liabilities and charges	20	**(2,300)**	(2,020)
Total non current liabilities		**(3,310)**	(3,232)
Assets less liabilities		**30,444**	26,575
Taxpayers' equity			
Revaluation Reserve		**2,491**	287
General Reserve		**27,953**	26,288
		30,444	26,575

Matthew Coats
Chief Executive and Accounting Officer for the Legal Services Commission to 1 April 2013 and of the Legal Aid Agency from 1 April 2013

20 June 2013

The notes on pages 87 to 116 form part of these financial statements.

Legal Services Commission

Statement of Cash Flows

For the year ended 31 March 2013

	Note	2012-13 £000	2011-12 £000
Cash flows from operating activities			
Net expenditure after interest and notional recharges		**(111,233)**	(82,118)
Adjustments for:			
Amortisation	6	**6,095**	4,314
Depreciation	7	**2,660**	4,199
Operating leases amortisation		**(138)**	(86)
Impairment of intangible assets		**452**	267
Impairment of property, plant and equipment		**-**	180
Intangible assets (upward) revaluations		**(197)**	(8)
Property, plant and equipment (upward) revaluations		**(70)**	(30)
Loss on disposal of property, plant and equipment	7	**154**	41
Loss on disposal of intangible assets	6	**38**	-
Interest receivable	9	**(139)**	(90)
Tax expense	11	**33**	23
Decrease/(increase) in trade and other receivables		**355**	1,361
Increase/(decrease) in trade and other payables		**2,762**	(3,132)
Increase/(decrease) in provisions	20	**272**	(722)
Gains on curtailments of pension scheme	4	**-**	(16,276)
Pension charge/(credit)		**5,424**	(1,906)
Notional recharge from the Ministry of Justice	13	**6,916**	1,166
Net finance (income)/costs	10	**(2,178)**	(3,240)
Net cash outflow from operating activities		**(88,794)**	(96,057)
Cash flows from investing activities			
Additions of intangible assets	6	**(15,067)**	(13,277)
Additions of property, plant and equipment	7	**(1,305)**	(2,400)
Movement in capital accruals		**31**	4,539
Interest receivable	9	**139**	90
Net cash outflow from investing activities		**(16,202)**	(11,048)
Cash flows from financing activities			
Grant from the Ministry of Justice: capital		**16,372**	15,677
Grant from the Ministry of Justice: revenue		**91,628**	85,923
Capital element of payments in respect of finance leases		**(383)**	(376)
Net cash inflow from financing activities		**107,617**	101,224
Net increase/(decrease) in cash and cash equivalents in the year		**2,621**	(5,881)
Cash and cash equivalents at the beginning of the year	15	**1,068**	6,949
Cash and cash equivalents at the end of the year	15	**3,689**	1,068

The notes on pages 87 to 116 form part of these financial statements.

Financial reports 2012-13

Legal Services Commission Administration financial statements *(continued)*

Legal Services Commission

Statement of Changes in Taxpayers' Equity

For the year ended 31 March 2013

	Note	Revaluation Reserve £000	General Reserve £000	Total £000
Balance at 1 April 2011		16	62,530	62,546
Changes in taxpayers' equity for 2011-12				
Grant from the Ministry of Justice				
Grant from the Ministry of Justice: capital		-	15,677	15,677
Grant from the Ministry of Justice: revenue		-	85,923	85,923
Notional recharge from the Ministry of Justice	13	-	1,166	1,166
		16	165,296	165,312
Comprehensive expenditure for 2011-12				
Intangible assets upward/(downward) revaluations relating to prior year		266	-	266
Property, plant and equipment upward/(downward) revaluations relating to prior year		179	-	179
Net gain/(loss) on revaluation		30	-	30
Comprehensive net expenditure for the year before notional recharges		-	(138,046)	(138,046)
Notional recharge from the Ministry of Justice	13	-	(1,166)	(1,166)
Historical cost depreciation transfer		(204)	204	-
Balance at 31 March 2012		287	26,288	26,575
Balance at 1 April 2012		**287**	**26,288**	**26,575**
Changes in taxpayers' equity for 2012-13				
Grant from the Ministry of Justice				
Grant from the Ministry of Justice: capital		**-**	**16,372**	**16,372**
Grant from the Ministry of Justice: revenue		**-**	**91,628**	**91,628**
Notional recharge from the Ministry of Justice	13	**-**	**6,916**	**6,916**
		287	**141,204**	**141,491**
Comprehensive net expenditure for 2012-13				
Net gain/(loss) on revaluation		**3,192**	**-**	**3,192**
Comprehensive net expenditure for the year before notional recharges		**-**	**(107,323)**	**(107,323)**
Notional recharge from the Ministry of Justice	13	**-**	**(6,916)**	**(6,916)**
Historical cost depreciation transfer		**(988)**	**988**	**-**
Balance at 31 March 2013		**2,491**	**27,953**	**30,444**

The notes on pages 87 to 116 form part of these financial statements.

Legal Services Commission

Notes to the Financial Statements

For the year ended 31 March 2013

Note 1 - Statement of accounting policies

The financial statements have been prepared in accordance with the 2012-13 *Government Financial Reporting Manual (FReM)* issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted and 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 Services Commission (the Commission) for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Commission are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

a) Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenditure during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed.

Going Concern

The Commission, a Non Departmental Public Body (NDPB) of the Ministry of Justice (MoJ), was set up by the Access to Justice Act 1999.

On 1 April 2013, the Legal Services Commission (LSC) was abolished under the Legal Aid, Sentencing and Punishment of Offenders (LASPO) Act 2012. At this date, the functions, property, rights and liabilities of the LSC were transferred in full to the Secretary of State for the MoJ and from that date are the responsibility of the Department's Executive Agency, the Legal Aid Agency (LAA), with the exception of the No. 4 Pension Scheme assets and liabilities.

As the functions previously provided by the LSC will continue to be provided using the same assets by another public sector entity, the LAA, it remains appropriate for the final financial statements of the LSC in respect of the year to 31 March 2013 to be prepared on a going concern basis in accordance with the *FReM* 2012-13 issued by HM Treasury.

The LAA will take on the assets and liabilities, including all administration costs in accordance with *IAS 1: Presentation of Financial Statements*. Note 27 discloses the closing Statement of Financial Position of the LSC at 31 March 2013 and the opening Statement of Financial Position of the LAA at 1 April 2013.

The future financing of the Agency's activities will be met through voted funding from the Parliament and reported in the *Ministry of Justice Main Estimate for 2013-14*. This estimate was published on HM Treasury website on 18 April 2013 (2012-13 on 19 April 2012).

Administration and programme - income and expenditure

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

Financial reports 2012-13

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

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

b) Disclosure of IFRS in issue and major FReM changes

IFRS in issue

The Commission has reviewed the IFRS in issue to determine if it needs to make any disclosures in respect of those new IFRS. References to 'new IFRS' includes new Interpretations and any new amendments to IFRS and Interpretations. It has been determined that there are no new IFRS that are relevant to the Commission.

The following new standards, interpretations and amendments which are not yet effective for the public sector may have an impact on the Commission's future accounts.

IAS 1 Presentation of Financial Statements – Other Comprehensive Income (effective for accounting periods beginning on or after 1 July 2012), retains the option to present other comprehensive expenditure on a separate statement from net operating cost items, and to reclassify certain other comprehensive expenditure items to net operating cost. The FReM's adaptation of IAS 1 amendment for public sector application is effective from 1 April 2013.

IFRS 9 Financial Instruments (effective for accounting periods beginning on or after 1 January 2015) addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into two measurement categories; those measured at fair value and those measured at amortised cost. The determination is made at initial recognition and depends on the contractual cash flow characteristics of the instrument and the method in which an entity manages its financial instruments.

IFRS 13 Fair Value Measurement (effective for accounting periods beginning on or after 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements, which are largely aligned between IFRS and UK GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or UK GAAP.

Major FReM changes for 2012-13 and 2013-14

There have been no significant accounting changes during the year, however a significant accounting change expected in 2013-14 is as follows:

IAS 19 (revised 2011) Employee Benefits (effective for accounting periods beginning on or after 1 January 2013) was issued in June 2011. The impact of this revision includes changes to disclosure and presentation requirements for defined benefit pension schemes, removal of the options to defer recognition of pension scheme gains and losses, and modification to the accounting for termination benefits.

c) 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.

d) 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 Commission applies a capitalisation threshold for intangible assets of £10,000 (2012: £10,000). When computer software is available for its intended use these costs are amortised on a straight line basis over an estimated life of 3 to 5 years.

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.

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

e) Property, plant and equipment

Property, plant and equipment assets costing more than the capitalisation threshold of £10,000 (2012: £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.

f) Depreciation and amortisation

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

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

g) Impairment of non financial assets

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

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

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

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

h) Revaluation

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

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

i) Other operating income

Other operating income comprises receipts authorised by the MoJ to be treated as income. Income is recognised at the point when it is probable that the economic benefits associated with the item of revenue will flow to the Commission and the amount of income can be measured with reliability.

j) Grant from Ministry of Justice (MoJ)

Grants received are accounted for as financing and credited directly to the General Reserve. Grant is received from the MoJ periodically throughout the year and is accounted for on a cash basis.

k) Interest receivable

The Community Legal Service Fund (CLSF) and the Criminal Defence Service (CDS) receives interest on third party deposit accounts for funded clients. The surplus interest is accounted for as "interest receivable" in the LSC Administration's Statement of Comprehensive Net Expenditure. We receive interest generated from the Fund, which is transferred to the LSC Administration financial statements for corporation tax purposes.

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

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

l) 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.

m) Provisions

Provisions represent liabilities of uncertain timing or amount. Provisions are recognised when the Commission 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 reported as other finance costs.

Legal costs

Provisions are made for costs when there is a probability that a future liability will arise.

Dilapidations

Provision is made for estimated dilapidation costs on leasehold buildings.

The provision has been estimated with reference to the condition and location of the buildings and the requirements of the relevant lease. It has then been discounted at the HM Treasury discount rate of negative 1.8% for short term (up to 5 years), negative 1% for medium term (5 to 10 years) and positive 2.2% for long term leases (over 10 years) (2012: positive 2.2% for all terms of leases).

Contractual claims

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

n) Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Commission. All other leases are classified as operating leases.

Finance leases

Assets funded through finance leases are capitalised and depreciated over their estimated useful lives. The amount capitalised is the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term at the inception of the lease. The resulting lease obligations are included in liabilities net of finance charges. Finance charges on finance leases are charged directly to the Statement of Comprehensive Net Expenditure as other finance costs.

Operating leases

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

o) Financial instruments

Financial assets

The Commission's financial assets are classified dependent on the purpose for which the financial assets were acquired. The Commission's financial assets comprise cash and cash equivalents, trade and other receivables.

Initial recognition and measurement

Receivables are non derivative financial assets with fixed or determinable payments that are not quoted on any market. The Commission has no intention of trading these receivables.

Derecognition

Receivables are derecognised when the rights to receive cash flows from the assets have expired.

Financial liabilities

The Commission's financial liabilities comprise trade and other payables.

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

Initial recognition and measurement

Trade and other payables are not revalued subsequent to initial recognition since they are simple instruments with short term maturities. The Commission is not authorised to borrow money.

Derecognition

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

Offsetting of financial instruments

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

Fair value of financial instruments

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

An analysis of fair values of financial instruments and further details of how they are measured are provided in note 23.

p) 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'). A financial asset or a group of financial assets are considered to be impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows.

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. An assessment of collective impairment will be made of financial assets with similar risk characteristics. For these assets, portfolio loss experience is used to provide objective evidence of impairment.

Where there is objective evidence that an impairment loss exists on loans and receivables, impairment provisions are made to reduce the carrying value of financial assets to the present value of the estimated future cash flows discounted at HM Treasury's interest rate, currently 2.2% (2012: 2.2%).

q) Accounting for Value Added Tax (VAT)

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

r) Pensions

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

The increase in the present value of the liabilities of the Commission's defined benefit pension schemes expected to arise from employee service is charged to the operating deficit. The expected return on the schemes' assets and the increase during the period in the present value of the schemes' liabilities arising from discounting are included in the Statement of Comprehensive Net Expenditure as other finance income. In accordance with *IAS 19 Employee Benefits*, the LSC Administration recognises actuarial gains and losses in full in the period in which they arise, in the Statement of Comprehensive Net Expenditure. Actuarial gains and losses incurred by the pension schemes are detailed in note 4.

s) Tax expense

The Commission is liable for corporation tax on bank interest.

Financial reports 2012-13

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

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

t) Employee benefits

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

u) Notional recharge from the Ministry of Justice

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

v) Recharges to the Community Legal Service Fund (CLSF) and the Criminal Defence Service (CDS)

The LSC Administration incurs costs and receives income mainly relating to Grants and Direct Services on behalf of the CLSF and CDS. These costs are recharged by the LSC Administration and included in the CLSF and CDS financial statements.

w) General Reserve

Funding received from the MoJ is credited to the General Reserve within the Taxpayers' equity section of the Statement of Financial Position upon receipt of funds.

x) Contingent liabilities and assets

A contingent liability is a possible obligation 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 Commission, or a present obligation that is not recognised because it is not probable that a payment will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

In accordance with *IAS 37 Provisions, Contingent Liabilities and Contingent Assets*, it is the Commission's policy to disclose a contingent liability unless the possibility of payment is remote.

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 Commission. A contingent asset is disclosed where an inflow of economic benefits is probable.

y) Events after the reporting period

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

Note 2 - Segmental analysis

The Commission considers and makes decisions about the LSC Administration financial statements in totality and as such no segmental reporting is considered necessary.

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

Note 3 - Employment costs

The Administration's employment costs

	2012-13 Permanently employed staff £000	2012-13 Other £000	2012-13 Total £000	Restated* 2011-12 Permanently employed staff £000	Restated* 2011-12 Other £000	Restated* 2011-12 Total £000
Salaries and wages	**36,448**	**8,562**	**45,010**	34,864	7,645	42,509
Social security costs	**2,894**	**317**	**3,211**	2,826	272	3,098
Other pension costs	**6,201**	**-**	**6,201**	5,567	-	5,567
	45,543	**8,879**	**54,422**	43,257	7,917	51,174
Less recoveries in respect of outward secondments	**(339)**	**-**	**(339)**	(204)	-	(204)
Redundancy **	**3,288**	**-**	**3,288**	277	-	277
	48,492	**8,879**	**57,371**	43,330	7,917	51,247
Commissioners' costs:						
Fees to non executives	**128**	**-**	**128**	149	-	149
Social security costs	**12**	**-**	**12**	15	-	15
	140	**-**	**140**	164	-	164
Total	**48,632**	**8,879**	**57,511**	43,494	7,917	51,411

*The analysis between permanently employed and other staff costs in the prior year has been restated to reclassify staff seconded to the LSC.

**Redundancy costs disclosed in the above table relate to 53 (2012: 12) full time equivalent staff.

Additional employment costs of £8,196k (2012: £6,154k), relating to staff working on capital projects, were capitalised during the year.

Other pension costs are the total operating charges relating to the pension schemes. Costs can be incurred in respect of both permanent and non permanent employees of the LSC Administration.

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

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

Financial reports 2012-13

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

Note 3 - Employment costs *(continued)*

The Administration's average number of persons employed

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

	2012-13 Permanently employed staff	2012-13 Other	2012-13 Total	Restated* 2011-12 Permanently employed staff	Restated* 2011-12 Other	Restated* 2011-12 Total
Directly employed	**1,192**	**271**	**1,463**	1,124	241	1,365
Other	**-**	**43**	**43**	-	76	76
Staff engaged on capital projects	**36**	**61**	**97**	32	58	90
Total	**1,228**	**375**	**1,603**	1,156	375	1,531

*The analysis between the average number of full time equivalent staff employed for other and permanently employed in the prior year has been restated to reclassify staff seconded to the LSC.

The average number of full time equivalent persons employed includes 1 (2012:1) Non Executive Commissioner.

	2012-13	2011-12
The average number of Non Executive Commissioners in post during the year was	**6**	6

The Community Legal Service Fund and Criminal Defence Service employment costs

Staff costs relating to the Public Defender Service (PDS), Criminal Defence Service (CDS), the Defence Solicitor Call Centre (DSCC) and Community Legal Advice Team (CLA) are included within the financial statements of the 'CLSF and CDS'. The disclosure of these costs and corresponding staff numbers are included below.

PDS, CDS and DSCC	2012-13 Permanently employed staff £000	2011-12 Permanently employed staff £000
Aggregate payroll costs were as follows:		
Salaries and wages	**1,372**	1,496
Social security costs	**121**	130
Other pension costs	**165**	230
	1,658	1,856
Redundancy *	**174**	20
	1,832	1,876

*There were 2 (2012: 1) redundancies during 2012-13.

Note 3 - Employment costs *(continued)*

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

	2012-13	2011-12
	Permanently employed staff	Permanently employed staff
PDS	**34**	38
CDS and DSCC	**3**	4
	37	42

CLSF	**2012-13**	2011-12
	Permanently employed staff	Permanently employed staff
	£000	£000
Aggregate payroll costs were as follows:		
Salaries and wages	**230**	198
Social security costs	**18**	16
Other pension costs	**29**	33
	277	247

The CLSF employment costs relate to the CLA team.

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

	2012-13	2011-12
	Permanently employed staff	Permanently employed staff
CLSF	**7**	5

Financial reports 2012-13

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

Note 3 - Employment costs *(continued)*

Compensation schemes

The Administration	2012-13 Number of compulsory redundancies	2012-13 Number of other departures	2012-13 Total number of exit packages	2011-12 Number of compulsory redundancies	2011-12 Number of other departures	2011-12 Total number of exit packages
Exit package cost band						
< £10,000	1	3	4	1	1	2
£10,000 - £25,000	3	4	7	5	2	7
£25,000 - £50,000	4	12	16	3	-	3
£50,000 - £100,000	10	9	19	-	-	-
£100,000 - £150,000	-	4	4	-	-	-
£150,000 - £200,000	-	2	2	-	-	-
£200,000 - £250,000	-	1	1	-	-	-
Total number of exit packages by type	18	35	53	9	3	12
Total resource cost (£000)	944	2,344	3,288	209	68	277

Compensation schemes

PDS, CDS and DSCC	2012-13 Number of compulsory redundancies	2012-13 Number of other departures	2012-13 Total number of exit packages	2011-12 Number of compulsory redundancies	2011-12 Number of other departures	2011-12 Total number of exit packages
Exit package cost band						
< £10,000	-	-	-	-	-	-
£10,000 - £25,000	-	-	-	-	1	1
£25,000 - £50,000	-	1	1	-	-	-
£50,000 - £100,000	-	-	-	-	-	-
£100,000 - £150,000	-	1	1	-	-	-
Total number of exit packages by type	-	2	2	-	1	1
Total resource cost (£000)	-	174	174	-	20	20

The above compensation tables show the number of exit packages agreed in the year and the total resource cost, accounted for on an accruals basis.

Note 4 - Pension costs

The Administration operated two pension schemes, the No.4 Scheme and the No.3 Scheme, providing benefits based on final pensionable salary. The assets of the schemes were held separately from those of the Commission, being invested in funds managed by Legal & General Investment Management Limited. Contributions to the schemes were charged to the Statement of Comprehensive Net Expenditure so as to spread the cost of the pensions over employees' working lives with the Commission. The contributions were set by the Trustees having taken advice from the schemes' actuary Hymans Robertson LLP. The most recent finalised formal valuations were as at 31 March 2010.

The assumptions have been updated to ensure the valuations are in line with the requirements of IAS 19 for the current year disclosure.

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

A full actuarial valuation of the No.4 Scheme was carried out at 31 March 2010 by qualified independent actuary Hymans Robertson LLP.

The actuary has prepared the IAS 19 valuation of the No.3 and No. 4 Pension Scheme to provide for the abolition of the Commission and the creation of a new body, the LAA on 1 April 2013 following the granting of Royal Assent of the LASPO Bill in May 2012.

In 2012-13, the Lord Chancellor made Transfer Scheme requirements to aid the transition to LAA. The LASPO Act 2012 included the requirement to merge the No.3 Scheme with the No.4 Scheme. Under IAS 19, there was no pension asset or liability (2012: nil) to transfer from the No.3 Scheme over to the No.4 Scheme at this date.

From 1 April 2013, the MoJ became the new sponsoring employer of the No. 4 Pension Scheme on behalf of the Secretary of State. The active members of the LSC No. 4 Pension Scheme will have the option to transfer their accrued service under the Scheme to the Principal Civil Service Pension Scheme (PCSPS) or become preserved members of the LSC No. 4 Pension Scheme. The Commission paid all the necessary contributions required up to the LSC being abolished on 1 April 2013. There is no requirement for the LAA to pay contributions into the LSC scheme after this date.

The pension asset of the No.4 Pension Scheme has reduced by £5,843k in the current year to show a nil balance (2011-12: £5,843k). From 1 April 2013, the LSC Pension Scheme No. 4 will be supported by a Crown Guarantee by the Secretary of State for Justice.

Under IAS 19, a cumulative irrecoverable surplus of £66,837k (2011-12: £43,154k) has been recognised as at 31 March 2013.

The Administration paid £904k (2012: £376k) in 2012-13 to cover the total cost of 5 (2012: 3) members who received termination benefits under the terms of the early retirement and early severance scheme. The Administration made no advanced payment into the No. 4 Pension Scheme in 2012-13 (2012: £7,000k).

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

A full actuarial valuation of the No.3 Pension Scheme was carried out at 31 March 2010 by qualified independent actuary Hymans Robertson LLP.

The No.3 Pension Scheme was closed to new entrants and had no active members. The Administration did not contribute to the scheme in the year ended 31 March 2013 (2012: nil).

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

Note 4 - Pension costs *(continued)*

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

	No. 4 Scheme % pa 2013	**No. 3 Scheme % pa 2013**	No. 4 Scheme % pa 2012	No. 3 Scheme % pa 2012
Discount rate	**4.40**	**4.40**	4.60	4.60
Rate of increase in salaries	**N/A****	**N/A**	4.3*	N/A
Deferred pension increase before retirement	**2.50**	**2.50**	2.50	2.50
Rate of increase in pensions in payment	**2.50**	**2.50**	2.50	2.50
Inflation assumption	**2.50**	**2.50**	2.50	2.50

* It is assumed all active members will be deferred in 2013.

** All active members in the pension scheme became deferred on 1st April 2013, so the rate of increase in salaries is no longer applicable.

Future life expectancies

The future life expectancies below are based on the 2013 post retirement mortality assumptions used for both schemes, namely standard actuarial tables S1PMA and S1PFA with an allowance for future improvements in line with the long cohort assumption. This assumption assumes a scaling factor of 85% for males and 75% for females; a ten year time lag; a one year age rating; and a 1.5% underpin for males and a 1% underpin for females.

	Male years 2013	**Female years 2013**	Male years 2012	Female years 2012
Future life expectancy for a pensioner aged 60 at 31 March	**28.7**	**30.2**	28.6	30.1
Future life expectancy at age 60 for a non pensioner aged 45 at 31 March	**31.9**	**32.2**	31.7	32.1

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

	Expected long-term rate of return at 31 March 2013 %	Expected long-term rate of return at 31 March 2012 %
No. 4 Pension Scheme		
Equities	**6.1**	6.3
Gilts and cash	**3.1**	3.3
Insured pensions	**4.4**	4.6

The expected return on assets has been based on the long term expectation for each asset class at the beginning of the period (i.e. as at 31 March 2013 for the year to 31 March 2014). The return on equities has been taken as 3% per annum above the yield on government bonds at the year end. This is consistent with the approach followed at the previous year end.

Note 4 - Pension costs *(continued)*

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

	Expected long-term rate of return at 31 March 2013 %	Expected long-term rate of return at 31 March 2012 %
No. 3 Pension Scheme		
Equities	**N/A**	N/A
Gilts and cash	**N/A**	3.3
Insured pensions	**N/A**	4.6

No expected return on assets is required because all assets will transfer out of the Scheme on 1 April 2013.

Pension scheme costs include:

	No. 4 Scheme 2012-13 £000	**No. 3 Scheme 2012-13 £000**	No. 4 Scheme 2011-12 £000	No. 3 Scheme 2011-12 £000
Current service cost - administration	**5,297**	**-**	5,191	-
Termination benefits	**904**	**-**	376	-
Current service cost - CLS and PDS	**194**	**-**	263	-
	6,395	**-**	5,830	-
Past service credit	**-**	**-**	-	-
Gains on curtailment of pension scheme	**-**	**-**	(16,276)	-
Total	**6,395**	**-**	(10,446)	-

The CLS and PDS operating charge is recognised in the CLSF and CDS financial statements. No curtailments or settlements have been recognised during the year.

Analysis of amounts charged to other finance income	**No. 4 Scheme 2012-13 £000**	**No. 3 Scheme 2012-13 £000**	No. 4 Scheme 2011-12 £000	No. 3 Scheme 2011-12 £000
Expected return on Scheme assets	**14,219**	**134**	16,133	162
Interest on Scheme liabilities	**(11,653)**	**(114)**	(12,738)	(133)
Net return	**2,566**	**20**	3,395	29

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

Note 4 - Pension costs *(continued)*

Analysis of amounts recognised in other comprehensive expenditure	No. 4 Scheme 2012-13 £000	No. 3 Scheme 2012-13 £000	No. 4 Scheme 2011-12 £000	No. 3 Scheme 2011-12 £000
Actual return less expected return on Scheme assets	**29,645**	**228**	9,525	298
Experience gains and losses arising on Scheme liabilities	**(9,800)**	**(42)**	(23,340)	(111)
Changes in assumptions underlying the present value of the Scheme liabilities	**853**	**14**	(95)	(51)
Actuarial gain/(loss) before irrecoverable surplus	**20,698**	**200**	(13,910)	136
(Decrease)/increase in surplus*	**(23,684)**	**(220)**	(43,154)	(166)
Total recognised in other comprehensive expenditure	**(2,986)**	**(20)**	(57,064)	(30)

* The surplus on the Scheme is only recoverable to the extent that the Commission can benefit from future contribution reductions.

Analysis of cumulative actuarial (loss)/gain	No. 4 Scheme 2012-13 £000	No. 3 Scheme 2012-13 £000	No. 4 Scheme 2011-12 £000	No. 3 Scheme 2011-12 £000
Actuarial gain/(loss) recognised in other comprehensive expenditure	**20,698**	**200**	(13,910)	136
Actuarial (loss)/gain at the beginning of the year	**(36,473)**	**(19)**	(22,563)	(155)
Cumulative actuarial (loss)/gain	**(15,775)**	**181**	(36,473)	(19)

Note 4 - Pension costs *(continued)*

Reconciliation of defined benefit obligation	**No. 4 Scheme 2012-13 £000**	**No. 3 Scheme 2012-13 £000**	No. 4 Scheme 2011-12 £000	No. 3 Scheme 2011-12 £000
The movement in the liabilities during the year arose as follows:				
Liabilities at beginning of year	**(252,536)**	**(2,592)**	(230,950)	(2,548)
Current service cost - Commission	**(5,297)**	**-**	(5,191)	-
Current service cost - CLS and PDS	**(194)**	**-**	(263)	-
Interest cost	**(11,653)**	**(114)**	(12,738)	(133)
Benefits accrued in respect of contributions by plan participants	**(2,168)**	**-**	(2,108)	-
Actuarial (losses)/gains	**(8,947)**	**(28)**	(23,435)	(162)
Termination benefits	**(904)**	**-**	(376)	-
Curtailment gains/(losses)	**-**	**-**	16,276	-
Benefits paid	**6,098**	**240**	6,249	251
Liabilities at end of year	**(275,601)**	**(2,494)**	(252,536)	(2,592)

Reconciliation of fair value of plan assets				
The movement in the assets during the year arose as follows:				
Assets at beginning of year	**301,533**	**3,950**	272,280	3,741
Expected return on assets	**14,219**	**134**	16,133	162
Contributions by plan participants	**2,168**	**-**	2,108	-
Contributions by the Commission	**971**	**-**	7,736	-
Actuarial gains/(losses)	**29,645**	**228**	9,525	298
Benefits paid	**(6,098)**	**(240)**	(6,249)	(251)
Assets at end of year	**342,438**	**4,072**	301,533	3,950
Irrecoverable surplus	**(66,837)**	**(1,578)**	(43,154)	(1,358)
Net pension asset/(liability)	**-**	**-**	5,843	-

The major categories of Scheme assets as a percentage of total Scheme assets

	No. 4 Scheme 2012-13 %	**No. 3 Scheme 2012-13 %**	No. 4 Scheme 2011-12 %	No. 3 Scheme 2011-12 %
Equities	**46**	**N/A**	47	-
Gilts and cash	**51**	**N/A**	50	85
Insured pensions	**3**	**N/A**	3	15
Total Scheme assets	**100**	**N/A**	100	100

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

Note 4 - Pension costs *(continued)*

The fair value of Scheme assets by category:

	No. 4 Scheme 2012-13 £000	**No. 3 Scheme 2012-13 £000**	No. 4 Scheme 2011-12 £000	No. 3 Scheme 2011-12 £000
Equities	**158,722**	**N/A**	141,721	-
Gilts and cash	**173,890**	**N/A**	150,767	3,523
Insured pensions	**9,826**	**N/A**	9,046	549
Total fair value of Scheme assets	**342,438**	**N/A**	301,534	4,072

The No. 4 Pension Scheme history of experience gains and losses over the period 1 April 2008 to 31 March 2013 was as follows:

	No. 4 Scheme 2012-13 £000	No. 4 Scheme 2011-12 £000	No. 4 Scheme 2010-11 £000	No. 4 Scheme 2009-10 £000	No. 4 Scheme 2008-09 £000
Fair value of plan assets	**342,438**	301,533	272,280	247,964	180,259
Present value of defined benefit obligation	**(275,601)**	(252,536)	(230,950)	(257,182)	(185,592)
(Decrease)/increase in surplus	**(66,837)**	(43,154)	-	-	-
Surplus/(deficit)	**-**	5,843	41,330	(9,218)	(5,333)
Experience adjustments on Scheme assets amount	**29,645**	9,525	4,445	44,089	(44,073)
Percentage of Scheme assets	**8.7%**	3.2%	1.6%	17.8%	(24.4)%
Experience adjustments on Scheme liabilities amount	**(9,800)**	(23,340)	15,259	5,074	4,619
Percentage of present value of Scheme liabilities	**(3.6)%**	(9.2)%	6.6%	2.0%	2.5%
Total actuarial (losses)/gains on obligation amount	**(8,947)**	(23,435)	24,772	(54,052)	40,527
Percentage of present value of Scheme liabilities	**(3.2)%**	(9.3)%	10.7%	21.0%	21.8%

1 individual retired early on ill-health grounds (2012: 1); the total additional accrued pension liabilities in the year amounted to £2k (2012: £1k).

Note 4 - Pension costs *(continued)*

The No. 3 Pension Scheme history of experience gains and losses over the period 1 April 2008 to 31 March 2013 was as follows:

	No. 4 Scheme 2012-13 £000	No. 4 Scheme 2011-12 £000	No. 4 Scheme 2010-11 £000	No. 4 Scheme 2009-10 £000	No. 4 Scheme 2008-09 £000
Fair value of plan assets	**4,072**	3,950	3,741	3,860	3,512
Present value of defined benefit obligation	**(2,494)**	(2,592)	(2,548)	(3,223)	(3,065)
(Decrease)/increase in surplus	**(1,578)**	(1,358)	-	-	-
Surplus/(deficit)	**-**	-	1,193	637	447
Experience adjustments on Scheme assets amount	**228**	298	(59)	458	(246)
Percentage of Scheme assets	**5.6%**	7.5%	(1.6)%	11.9%	(7.0)%
Experience adjustments on Scheme liabilities amount	**(42)**	(111)	131	73	113
Percentage of present value of Scheme liabilities	**(1.7)%**	(4.3)%	5.1%	2.3%	3.7%
Total actuarial (losses)/gains on obligation amount	**(28)**	(162)	471	(260)	596
Percentage of present value of Scheme liabilities	**(1.1)%**	(6.3)%	18.5%	(8.1)%	19.4%

Liability and insured pension sensitivity at 31 March to changes in key assumptions

The table below shows the sensitivity of the liability and insured pensions for both schemes as at 31 March 2013 to changes in key assumptions. These figures have been calculated in a consistent manner to the rest of the figures in the financial statements. The changes are considered in isolation.

Changes in assumptions	**Decrease/(increase) to value of liabilities**		**Increase /(decrease) to value of insured pensions**	
	No. 4 Scheme £000	**No. 3 Scheme £000**	**No. 4 Scheme £000**	**No. 3 Scheme £000**
Discount rate increased by 0.25% p.a.	**15,814**	**55**	**201**	**10**
Pension increases and deferred pension increases increased by 0.25% p.a.	**14,790**	**43**	**No change**	**No change**
1 year increase in member life expectancy	**8,192**	**75**	**295**	**16**

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

Note 5 - Reconciliation of asset additions to capital expenditure

	2012-13 £000	2011-12 £000
Purchase of intangible assets	**10,031**	9,427
Capital accrual	**5,036**	3,850
Intangible asset additions (Note 6)	**15,067**	13,277
Purchase of property, plant and equipment	**744**	684
Capital accrual	**561**	1,716
Property, plant and equipment additions (Note 7)	**1,305**	2,400
Total asset additions	**16,372**	15,677

Note 6 - Intangible assets

	Assets under construction £000	Computer software £000	Total £000
Cost at 1 April 2012	**20,134**	**23,770**	**43,904**
Reclassifications from property, plant and equipment	**187**	**118**	**305**
Additions	**15,067**	**-**	**15,067**
Disposals	**-**	**(80)**	**(80)**
Impairments	**(452)**	**-**	**(452)**
Transfers	**(8,943)**	**8,943**	**-**
Revaluations	**-**	**4,299**	**4,299**
Cost at 31 March 2013	**25,993**	**37,050**	**63,043**
Amortisation at 1 April 2012	**-**	**10,599**	**10,599**
Charged in year	**-**	**6,095**	**6,095**
Disposals	**-**	**(42)**	**(42)**
Revaluations	**-**	**1,449**	**1,449**
Amortisation at 31 March 2013	**-**	**18,101**	**18,101**
Net book value at 31 March 2013	**25,993**	**18,949**	**44,942**

The assets under construction balance includes £24,719k (2012: £17,007k) of costs relating to the development of the Client and Cost Management System (CCMS) for the Integrated Delivery Programme (IDP).

The total additions include £5,036k (2012: £3,850k) of capital accruals at 31 March 2013.

The Revaluation Reserve balance of £2,491k in Statement of Changes in Taxpayer's Equity includes £2,120k (2012: £223k) relating to intangible assets at 31 March 2013.

Software licences of £452k were charged to the Statement of Comprehensive Net Expenditure during the year as these licences are no longer in use.

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

Note 6 - Intangible assets *(continued)*

	Assets under construction £000	Computer software £000	Total £000
Cost at 1 April 2011	11,128	19,476	30,604
Additions	13,277	-	13,277
Transfers	(4,271)	4,271	-
Revaluations	-	23	23
Cost at 31 March 2012	20,134	23,770	43,904
Amortisation at 1 April 2011	-	6,279	6,279
Charged in year	-	4,314	4,314
Revaluations	-	6	6
Amortisation at 31 March 2012	-	10,599	10,599
Net book value at 31 March 2012	20,134	13,171	33,305

Note 7 - Property, plant and equipment

	Assets under construction £000	**Fixtures and fittings £000**	**Furniture and equipment £000**	**Information technology £000**	**Total £000**
Cost at 1 April 2012	**2,734**	**5,885**	**2,145**	**7,007**	**17,771**
Reclassifications to intangibles	**(203)**	**-**	**-**	**(102)**	**(305)**
Additions	**1,272**	**-**	**-**	**33**	**1,305**
Disposals	**-**	**(1,056)**	**(496)**	**(244)**	**(1,796)**
Transfers	**(845)**	**-**	**-**	**845**	**-**
Revaluations	**-**	**84**	**30**	**1,028**	**1,142**
Cost at 31 March 2013	**2,958**	**4,913**	**1,679**	**8,567**	**18,117**
Depreciation at 1 April 2012	**-**	**4,686**	**1,863**	**3,349**	**9,898**
Charged in year	**-**	**785**	**170**	**1,705**	**2,660**
Disposals	**-**	**(1,017)**	**(492)**	**(133)**	**(1,642)**
Transfers	**-**	**-**	**-**	**-**	**-**
Revaluations	**-**	**65**	**25**	**443**	**533**
Depreciation at 31 March 2013	**-**	**4,519**	**1,566**	**5,364**	**11,449**
Net book value at 31 March 2013	**2,958**	**394**	**113**	**3,203**	**6,668**

The total additions include £561k (2012: £1,716k) capital accruals at 31 March 2013.

The Revaluation Reserve balance of £2,491k in Statement of Changes in Taxpayer's Equity includes £371k (2012: £64k) relating to property, plant and equipment at 31 March 2013.

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

Note 7 - Property, plant and equipment *(continued)*

	Assets under construction £000	Fixtures and fittings £000	Furniture and equipment £000	Information technology £000	Total £000
Cost at 1 April 2011	1,551	7,329	3,220	5,782	17,882
Additions	2,360	-	-	40	2,400
Disposals	-	(1,536)	(1,106)	-	(2,642)
Transfers	(1,177)	-	-	1,177	-
Revaluations	-	92	31	8	131
Cost at 31 March 2012	2,734	5,885	2,145	7,007	17,771
Depreciation at 1 April 2011	-	4,236	2,088	1,896	8,220
Charged in year	-	1,902	846	1,451	4,199
Disposals	-	(1,509)	(1,092)	-	(2,601)
Revaluations	-	57	21	2	80
Depreciation at 31 March 2012	-	4,686	1,863	3,349	9,898
Net book value at 31 March 2012	2,734	1,199	282	3,658	7,873

Asset financing

	Assets under construction £000	**Fixtures and fittings £000**	**Furniture and equipment £000**	**Information technology £000**	**Total £000**
Owned	**2,958**	**394**	**113**	**2,702**	**6,167**
Finance leased	**-**	**-**	**-**	**501**	**501**
Net book value at 31 March 2013	**2,958**	**394**	**113**	**3,203**	**6,668**

	Assets under construction £000	Fixtures and fittings £000	Furniture and equipment £000	Information technology £000	Total £000
Owned	2,734	1,199	282	2,775	6,990
Finance leased	-	-	-	883	883
Net book value at 31 March 2012	2,734	1,199	282	3,658	7,873

Note 8 - Other operating charges

	2012-13 £000	Restated 2011-12 £000
Accommodation and related costs	**3,703**	5,000
Office, IT and service running costs*	**14,085**	11,446
Staff and committee member related costs	**1,928**	1,793
Operating leases	**4,058**	5,434
External audit fee	**308**	308
Legal and professional costs*	**5,560**	5,005
Service level agreements with HMCTS	**9,900**	10,823
Other administration costs*	**995**	1,300
	40,537	41,109

* The prior year office, IT and service running costs; other administration costs and legal and professional costs have been restated due to reclassification of costs.

Note 9 - Interest receivable

	2012-13 £000	2011-12 £000
Interest from CLSF and CDS*	**139**	90
Interest receivable	**139**	90

* Includes interest earned on the bank deposit account held in the accounts of the CLSF and CDS. Interest earned on this account is used to meet administration costs incurred by the Commission.

Note 10 - Other finance costs/income

	2012-13 £000	2011-12 £000
Finance costs		
Discount on provisions (note 20)	**320**	79
Finance lease charges	**88**	105
	408	184
Finance income		
Return on Pension Scheme No. 4 (note 4)	**2,566**	3,395
Return on Pension Scheme No. 3 (note 4)	**20**	29
	2,586	3,424

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

Note 11 - Tax expense

	2012-13 £000	2011-12 £000
Corporation tax on bank deposit interest	**33**	23

The Commission is liable to corporation tax on bank interest. The applicable rate of corporation tax is 24% (2012: 26%).

Note 12 - Income

	2012-13 £000	2011-12 £000
Income	**808**	689

The majority of income is from other government departments which have co-located within surplus LSC office space.

Note 13 - Notional recharge from the Ministry of Justice

	2012-13 £000	2011-12 £000
Notional recharge	**6,916**	1,166

The majority of notional recharges relates to property, Information and Communications Technology (ICT) and telephony costs.

Note 14 - Trade and other receivables

	2012-13 £000	Restated 2011-12 £000
Amounts falling due within one year:		
Other receivables	**358**	587
Amounts due from HMCTS	**73**	-
Amounts due from the MoJ*	**109**	557
Amounts due from CLSF and CDS	**1,370**	901
Prepayments and accrued income	**962**	1,182
	2,872	3,227

* Amounts due from the MoJ in the prior year have been shown separately, from amounts due to the MoJ in note 16.

	2012-13 £000	Restated 2011-12 £000
Amounts falling due within one year by organisational type:		
Central government bodies	**1,886**	1,799
Bodies external to government	**986**	1,428
	2,872	3,227

Note 15 - Cash and cash equivalents

	2013 £000	2012 £000
Balance at 1 April	**1,068**	6,949
Net change in cash and cash equivalent balances	**2,621**	(5,881)
Balance at 31 March	**3,689**	1,068
The balances at 31 March were held at:		
Government Banking Service	**3,349**	744
Commercial banks	**340**	324
Total cash and cash equivalents	**3,689**	1,068

Note 16 - Trade and other payables

	2013 £000	Restated 2012 £000
Amounts falling due within one year:		
Other payables	**656**	611
Amounts due to HMCTS	**2,842**	3,526
Amounts due to the MoJ*	**6,731**	7,466
Amounts due to National Offender Management Service	**429**	-
Corporation tax	**33**	18
Other taxation and social security costs	**1,229**	1,090
Finance lease creditors	**316**	290
Accruals and deferred income	**11,337**	7,976
	23,573	20,977

* The restatement of prior year's trade and other payables balances is explained in Note 14.

Amounts falling due within one year by organisational type:		
Local authorities	**-**	1
Central government bodies	**11,982**	13,117
Bodies external to government	**11,591**	7,859
	23,573	20,977

Note 16 - Trade and other payables *(continued)*

	2013 £000	Restated 2012 £000
Amounts falling due after more than one year:		
Finance lease creditors	**633**	920
Accruals and deferred income	**377**	292
	1,010	1,212
Amounts falling due after more than one year by organisational type:		
Central government bodies	**200**	75
Bodies external to government	**810**	1,137
	1,010	1,212

For payables with a life of one year or less, the carrying amount is deemed to reflect fair value.

Note 17 - Going concern

The Statement of Financial Position at 31 March 2013 shows net assets of £30.4m. The going concern principles outlined in note 1a) have been followed.

Note 18 - Capital commitments

Contracted capital commitments at 31 March not otherwise included in these financial statements;

	2013 £000	2012 £000
Intangible assets	**1,242**	3,803

The total capital commitments includes £988k (2012: £3,660k) associated with implementation of the Integrated Delivery Programme (IDP).

Note 19 - Commitments under leases

a) Operating leases

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

	Land and buildings 2012-13 £000	**Other 2012-13 £000**	**Total 2012-13 £000**	Land and buildings 2011-12 £000	Other 2011-12 £000	Total 2011-12 £000
Obligations under operating leases comprise:						
Not later than one year	**3,357**	**-**	**3,357**	3,527	365	3,892
Later than one year and not later than five years	**8,868**	**-**	**8,868**	10,195	907	11,102
Later than five years	**2,557**	**-**	**2,557**	2,043	-	2,043
	14,782	**-**	**14,782**	15,765	1,272	17,037

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.

b) Finance leases

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

	2012-13 £000	2011-12 £000
Gross lease liabilities:		
Not later than one year	**383**	376
Later than one year and not later than five years	**1,013**	1,357
Less future interest	**(447)**	(523)
Total present value of obligations	**949**	1,210

	2012-13 £000	2011-12 £000
The present value of finance lease liabilities is repayable as follows:		
Not later than one year	**316**	290
Later than one year and not later than five years	**633**	920
Total present value of obligations	**949**	1,210

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

Note 20 - Provision for liabilities and charges

	Provision for contractual claims £000	Provision for legal costs £000	Provision for dilapidations £000	Total £000
At 1 April 2012	-	155	2,397	2,552
Additions and increases to provision	-	398	477	875
Amounts used in the year	-	(34)	(115)	(149)
Unused amounts reversed in the year	-	(86)	(368)	(454)
Finance charges (note 10)	-	-	320	320
At 31 March 2013	-	433	2,711	3,144

	Provision for contractual claims £000	Provision for legal costs £000	Provision for dilapidations £000	Total £000
At 1 April 2011	96	230	2,869	3,195
Additions and increases to provision	-	155	11	166
Amounts used in the year	(96)	(227)	(181)	(504)
Unused amounts reversed in the year	-	(3)	(381)	(384)
Finance charges (note 10)	-	-	79	79
At 31 March 2012	-	155	2,397	2,552

Provision is made for legal costs associated with ongoing litigation.

Provision is made for estimated dilapidation costs on leasehold buildings. The provision has been estimated with reference to the condition and location of the buildings and the requirements of the relevant lease. It has then been discounted at the HM Treasury discount rate of negative 1.8% for short-term (up to 5 years), negative 1% for medium-term (5 to 10 years) and positive 2.2% for long-term leases (over 10 years) (2012: positive 2.2% for all terms of leases).

The costs are expected to be incurred between 2013 and 2026 as each lease expires.

Analysis of expected timing of discounted flows	Provision for contractual claims £000	Provision for legal costs £000	Provision for dilapidations £000	Total £000
Not later than one year	-	433	411	844
Later than one year and not later than five years	-	-	850	850
Later than five years	-	-	1,450	1,450
Balance at 31 March 2013	-	433	2,711	3,144

Note 20 - Provision for liabilities and charges *(continued)*

Analysis of expected timing of discounted flows	Provision for contractual claims £000	Provision for legal costs £000	Provision for dilapidations £000	Total £000
Not later than one year	-	155	377	532
Later than one year and not later than five years	-	-	1,004	1,004
Later than five years	-	-	1,016	1,016
Balance at 31 March 2012	-	155	2,397	2,552

The prior year's provisions for liabilities and charges have been restated to disclose the amounts falling due within one year and amounts falling due after more than one year.

Note 21 - Contingent liabilities

The Commission is currently involved in one employee related matter at a varying stage of resolution for which there is a potential liability of £30k and one case for which there is a potential liability of £22k.

In addition, the Commission is currently involved in four cases at varying stages of resolution for which there is a potential asset.

Note 22 - Related party transactions

The Commission was a NDPB sponsored by the MoJ. The MoJ is regarded as a related party. During the year, the Commission had various material transactions with the MoJ. The Commission has also had various material transactions with Her Majesty's Courts and Tribunals Service (HMCTS), an Agency of the MoJ, relating to work provided by that organisation on behalf of the Commission.

During the year the Commission entered into material arms length transactions on normal commercial terms with the related party detailed below.

		Transactions £
Commissioners and related parties		
Dr David Wolfe QC	Amanda Illing is married to Dr David Wolfe QC, a Commissioner. Amanda was the Practice Director at Hardwicke Chambers until November 2012 and then the Chief Executive. Barristers at Hardwicke Chambers contribute a percentage of their earnings to its central costs which include Amanda Illing's salary. Payments were made to barristers at Hardwicke Chambers for work carried out under instruction by the Commission's legal team. The total amount owed to barristers at Hardwicke Chambers at 31 March 2013 is nil (2012: £1.3k).	82,718

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

Note 23 - Financial instruments

a) Carrying amount and fair values

The fair value of cash and short term deposits, trade payables and other liabilities approximate their carrying amount largely due to the short term maturities of these instruments.

b) Financial risk identification and management

The Administration's financial risk management process seeks to enable the early identification, evaluation and effective management of key risks facing the Commission.

Systems have been established to review and reflect changes in the legal aid market and the Commission's activities.

The Administration is exposed to the following financial risks from its use of financial instruments:

Liquidity risk

The LSC Administration is financed by grant received from the MoJ. As such it is not exposed to significant liquidity risks.

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 Commission is exposed to credit risk 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. The LSC Administration considers its maximum exposure to credit risk to be:

	31 March 2013 £000	Restated* 31 March 2012 £000
Cash at bank	**3,689**	1,068
Trade and other receivables	**2,872**	3,227
	6,561	4,295

* Refer to note 14 - Trade and other receivables.

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.

The LSC Administration financial statements have seen no direct evidence of changes to the credit risk of its counterparties.

The LSC Administration financial statements use market knowledge and changes in credit ratings to identify significant changes to the financial profile of its counterparties.

Interest rate risk

The LSC Administration is not exposed to any significant interest rate risk.

Foreign currency risk

The LSC Administration financial statements present its accounts in Sterling. The administration procures legal aid in England and Wales. Foreign currency would not usually form part of the Commission's assets or liabilities and the Commission is not exposed to any significant foreign currency risks.

Note 24 - Other financial commitments

The LSC Administration has entered into non cancellable contracts at 31 March 2013. The payments to which the LSC Administration is committed are as follows:

	31 March 2013 £000	31 March 2012 £000
Not later than one year	**848**	323
Later than one year and not later than five years	**-**	73
Present value of obligations	**848**	396

Other financial commitments relate to IT expenditure on the IDP.

Note 25 - Accountability notes

Losses

During the year, the LSC Administration recognised an impairment charge of £452k in the Statement of Comprehensive Net Expenditure for software licences no longer in use.

There were no known incidences of cash reported stolen in the year (2012: nil).

Special payments

The total amount of special payments for the year did not exceed £250k, the level at which disclosure of the value and number of ex-gratia payments is required in accordance with *Managing Public Money*. In the prior year, the LSC Administration made 67 ex-gratia payments totalling £287,851.

Note 26 - Events after the reporting period

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

Under the LASPO Act 2012, the LSC was abolished on 1 April 2013. At this date, the functions, property, rights and liabilities of the LSC Administration was transferred in full to the Secretary of State for the MoJ and from that date are the responsibility of the Department's Executive Agency, the LAA.

LSC No. 3 and No. 4 Pension Schemes

Under the powers of the LASPO Act 2012, the Lord Chancellor made a Transfer Scheme which included changes to the Trust Deed and Rules of the No.4 Pension Scheme. This provided the LSC Pension Scheme with the support of a Crown Guarantee sponsored by the Secretary of State. The Act also enabled the No.3 Pension Scheme to merge with the No.4 Pension Scheme.

From 1 April 2013 the LSC No.4 Pension Scheme closed to future contributions and all LSC employees were automatically enrolled into the PCSPS. The members of the No.4 Pension Scheme who remained in the Premium Scheme will have the option of transferring their accrued entitlement to the PCSPS under a bulk transfer agreement or become preserved members of the LSC Pension Scheme at vesting date. The final election made by the employees is not expected to be known until August 2013.

From 1 April 2013, the MoJ will be the new sponsoring employer of the No.4 Pension Scheme on behalf of the Secretary of State. The LAA will not have an involvement with the No.4 Pension Scheme going forward and consequently no pension asset or liability balances will exist within their accounts. The No 4. Pension Scheme will be included within the MoJ's financial statements next year.

There are no other subsequent events to report.

Note 27 - Legal Services Commission closure and creation of the Legal Aid Agency

As a consequence of the LASPO Act 2012, the LSC ceased to exist on 1 April 2013, but its functions and responsibilities transferred in full to the LAA from that date.

The table on the following page details the assets, liabilities and reserves in the closing Statements of Financial Position of the CLSF, CDS and Administration and their subsequent transfer to the new Agency.

From 1 April 2013 we will cease to report the CLSF and CDS separately from our Administration accounts and will instead report solely under the LAA.

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

	LSC Fund 31 March 2013 £000	LSC Admin 31 March 2013 £000	Intercompany Adjustments £000	LAA 1 April 2013 £000
Non current assets				
Property plant and equipment	-	6,668	-	6,668
Intangible fixed assets	-	44,942	-	44,942
Total non current assets	**-**	**51,610**	**-**	**51,610**
Current assets				
Trade and other receivables	101,642	2,872	(1,370)	103,144
Cash and cash equivalents	19,969	3,689	-	23,658
Total current assets	**121,611**	**6,561**	**(1,370)**	**126,802**
Total assets	**121,611**	**58,171**	**(1,370)**	**178,412**
Current liabilities				
Trade and other payables	(287,420)	(23,573)	1,370	(309,623)
Provisions for liabilities and charges	(624,521)	(844)	-	(625,365)
Total current liabilities	**(911,941)**	**(24,417)**	**1,370**	**(934,988)**
Non current liabilities				
Trade and other payables	-	(1,010)	-	(1,010)
Provisions for liabilities and charges	(216)	(2,300)	-	(2,516)
Total non current liabilities	**(216)**	**(3,310)**	**-**	**(3,526)**
Assets less liabilities	**(790,546)**	**30,444**	**-**	**(760,102)**
Taxpayers' equity				
General Reserve	(790,546)	27,953	-	(762,593)
Revaluation Reserve	-	2,491	-	2,491
	(790,546)	**30,444**	**-**	**(760,102)**

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