

Annual Report and Accounts **2008/09**



legal aid – fair access to justice



Legal aid marks 60 years of justice

2009 marks the 60th anniversary of legal aid. Legal aid was born on 30 July 1949, when the Legal Aid and Advice Bill received Royal Assent. Its aim – that nobody should be ‘financially unable to prosecute a just and reasonable claim or defend a legal right.’

For the last 60 years legal aid has not only helped individuals, but also funded test cases in the courts which have helped many more people. At times it has improved the justice system and sometimes changed the law itself.

The Legal Services Commission is working with partners, within and outside the legal sector, to raise awareness of how legal aid helps disadvantaged people, especially during a recession. We aim to generate discussion about the role of legal aid in a democratic society today. We will also look to the future when we are confident legal aid will continue to play a vital role.

To learn more about the anniversary, visit www.legalaid60.org.uk.

Legal Services Commission Annual Report and Accounts 2008/09

Laid before Parliament by the Lord Chancellor and Secretary of State for Justice pursuant to paragraph 14, and in respect of the financial statements on behalf of the Comptroller and Auditor General under paragraph 16 (4), of Schedule 1 to the Access to Justice Act 1999.

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Chair and Chief Executive's review



Legal aid was created at the same time as the National Health Service and significant post-war changes to education and housing.



2009 marks the 60th anniversary of legal aid. In this historic year, we can celebrate not just one year but 60 years of achievement through legal aid.

The Legal Aid and Advice Act was passed on 30 July 1949. Legal aid was introduced so that people could have a right to the help they needed without relying on charity or the social conscience of the legal profession. The Act was contemporary with the founding of the welfare state and the United Nations' Declaration of Human Rights. All these changes focused on delivering social justice, recognising people's rights and empowering marginalised people to enforce their rights.

The Legal Services Commission (LSC) acts as a champion for legal aid clients by commissioning quality services that meet their needs and ensure access to justice.

From a spend of less than a million pounds per year in the 1950s, we now purchase over £2 billion of legal aid services a year. We must ensure that legal aid is affordable within the resources available. We are implementing changes aimed at making our legal aid system more fit for purpose for the 21st century.

In 2008/09 our civil and crime providers delivered nearly 2.9 million acts of assistance. We achieved 17 out of 20 Key Performance Indicators, which contribute to our Strategic Objectives. We are particularly proud to have increased the number of cases of initial civil advice and assistance in areas like debt and housing to over 1 million in 2008/09 – a record amount. In a year of economic challenges, while strengthening our focus on ensuring service provision in key areas such as housing advice in courts, we also paid our providers more quickly, achieving all of the above within our budget.

We would like to thank Sir Michael Bichard, who chaired the Commission until August 2008, for his leadership through the 2006 review of legal aid procurement and into the first stage of the legal aid transformation programme.

We would also like to welcome Commissioner Julian Lee who joined us in November 2008. The LSC has a new Executive Team (Hazel Parker-Brown, Phil Lambert and Hugh Barrett) and we have a new, more efficient, corporate structure that is designed to ensure we commission services in the best way possible to achieve our Vision.

Finally, we continue to rely on LSC staff to deliver a challenging reform programme within declining resources. We are extremely proud that the LSC gained the Investors in People accreditation this year.

We look forward to the challenges ahead and to continuing our open and honest dialogue with our stakeholders. We are committed to achieving our joint aims to ensure that legal aid continues into the next 60 years and beyond.

A handwritten signature in black ink that reads "Bill Callaghan". The signature is written in a cursive, slightly slanted style.

Sir Bill Callaghan
Chair, Legal Services Commission

A handwritten signature in black ink that reads "Carolyn Regan". The signature is written in a cursive, slightly slanted style.

Carolyn Regan
Chief Executive, Legal Services Commission

Legal Services Commission
20 October 2009

Legal aid – fair access to justice



92% of our Community Legal Advice helpline clients would recommend our service.

The Legal Services Commission (LSC) is responsible for delivering, through high quality service providers, legal aid (publicly funded advice and representation) to people with legal problems in England and Wales.

Legal aid enables people to safeguard their rights and address their problems. Our work is therefore 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 justice and fair trials with professional representation.

We commission the services people need from solicitors, barristers and advice agencies. The skills and commitment of legal aid service providers are essential to helping people resolve their problems.

At 31 March 2009, the LSC had 1,690 members of staff (including all permanent and temporary payroll staff) based in 14 sites across England and Wales.

We deliver legal services through two schemes: the Community Legal Service (CLS) and the Criminal Defence Service (CDS). Both schemes have 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 is a network of solicitors, barristers and advice agencies which provides and promotes civil and family legal advice and representation.

The LSC manages Community Legal Advice, which includes telephone and internet-based services. We also contract 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 provides legal advice and representation to people being investigated or charged with a criminal offence.

The LSC manages the duty solicitor schemes for police stations and magistrates' courts so that those who need advice and representation can see a solicitor. We also fund services in the higher courts. Our Public Defender Service provides criminal defence services directly to the public.

**Criminal
Defence Service**



Legal aid – fair access to justice

Our relationship with Government

The LSC was established under the Access to Justice Act 1999. It replaced the Legal Aid Board in April 2000. It is a non-departmental public body sponsored by the Ministry of Justice (MoJ). The Lord Chancellor and Secretary of State for Justice is accountable to Parliament for our activities and performance. Our strategy, set out below, shows how our objectives link to those of the MoJ.

Cross-government Public Service Agreement targets to which the LSC contributes

- Increase the proportion of socially excluded adults in settled accommodation and employment, education or training
- Build more cohesive, empowered and active communities

Cross-government Public Service Agreement targets which the LSC supports

- Make communities safer
- Deliver a more effective, transparent and responsive criminal justice system for victims and the public.

Our strategy

MoJ Departmental Strategic Objectives	Strengthening democracy, rights and responsibilities	Delivering fair and simple routes to civil and family justice	Protecting the public and reducing re-offending	A more effective, transparent and responsive criminal justice system for victims and the public
Our Vision	Legal aid – fair access to justice			
Our Values	An organisation which is clear, competent, confident and courageous			
Our Strategic Objectives	1 Maximise access to quality services to meet the diverse needs of the clients we serve	2 Deliver a sustainable legal aid scheme and an efficient and diverse organisation	3 Ensure the efficient delivery of justice and wider government priorities	

Case study

About our annual report

This annual report reviews our progress during the year towards fulfilling our aims and objectives, as agreed with the MoJ and set out in our *Strategic Plan 2008–11*. Our strategic plans are published on our website at www.legalservices.gov.uk.

In this report, the 'Year in focus' chapter on page 8 gives an overview of our key achievements and developments in 2008/09. 'Our performance' on page 24 shows how we performed against the Key Performance Indicators that contribute to our Strategic Objectives.

Figures given in the text, unless otherwise stated, are total case costs. This is intended to more closely align reporting across both the annual report and the accounts, which are on an accruals basis, and give more consistent comparatives over time.

We present statistical information for 2008/09 in a summary format. A detailed statistical analysis of our work, including comparisons with 2007/08, can be found on our website.

You can find our financial reports on page 28. These explain our financial systems and processes and report on the more technical aspects of our performance. Our financial statements for 2008/09 have been audited by the National Audit Office, and are at the end of this report.

“ People who can least afford it can now access high quality advice ”

Portsmouth Community Legal Advice centre manager Gail McMillan



Duty solicitor kept me calm when I was locked up

Sitting in a cell at Greenwich Police Station one January day Martin Brown* quickly learned to appreciate the role of duty solicitors.

The police had picked Martin up as he walked to the shops. He was arrested on suspicion of stealing a car, which had crashed on a roundabout after a high-speed chase.

He said: "I felt incredibly alone. There were a lot of distressing shouts and shrieks from people in neighbouring cells, which I found unsettling. But I'd been given the chance to talk to a duty solicitor on the telephone.

"I was reassured by the solicitor's calm manner despite her warning that I might be transferred to Tunbridge Wells for questioning about robberies in Kent."

Martin was initially stopped at 3.40pm on a flyover in Blackheath, south east London. A police sergeant believed he matched the description of the driver who had stolen the crashed car.

Martin said: "My arrest puzzled me because the officers involved in the car chase were unable to identify me after I was picked up. I had car keys in my pocket but these did not fit the crashed car. I offered to show the police my own car and where I lived. They rejected my offer and I was booked in at Greenwich Police Station shortly after 5pm.

"Later that evening the police realised they had picked up the wrong person. I was released before 8pm.

"Looking back there was one big thing that kept me calm while I sat staring at the cell walls: that was the duty solicitor's promise that she would not forget about me and would make check calls about my situation. I never met her but I'll always be grateful."

* The name of the client has been changed to protect his identity.

The year in focus



A Relationship Manager makes on average 50 visits per year to contracted providers, helping them to deliver high quality advice to legal aid clients.

Legal aid was introduced 60 years ago and remains a pillar of our modern, free and democratic society. Historically there have been concerns about the unsustainable growth in legal aid expenditure, particularly in the late 1990s. This led to the creation of the Legal Services Commission (LSC) under the Access to Justice Act 1999.

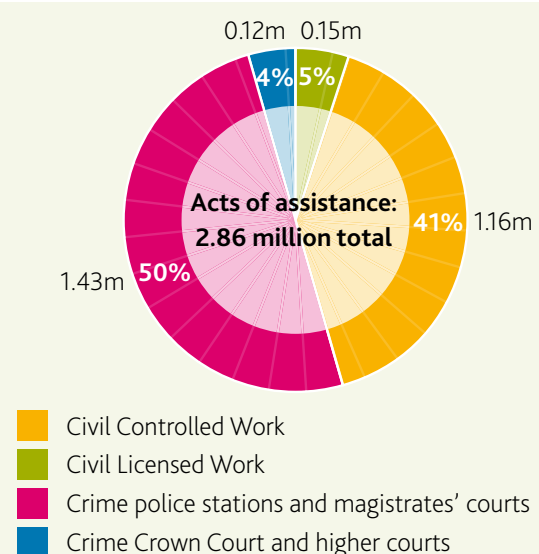
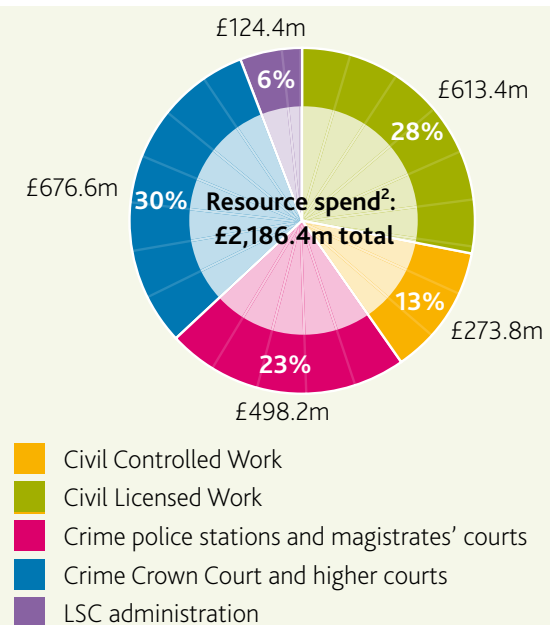
In 2008/09, the LSC again kept within the funding provided by our sponsor department, despite increasing demand for services. The current challenging financial climate means the LSC needs to focus even harder on obtaining the best possible value for money for the taxpayer. With this in mind, the LSC is currently engaged on a transformation programme, which seeks to place legal aid on a sustainable footing for the future.

Following implementation of the first phase of the programme in 2007/08, we focussed on internal transformation in 2008/09 and on maximising services to clients. In an economic downturn, we provided additional funding for social welfare law and expanded duty solicitor schemes in housing repossession hearings. We also introduced improved payment arrangements for providers.

“ I was so grateful to the LSC for granting me legal aid... it helped me through a very stressful divorce ”

legal aid client

Payments and acts of assistance 2008/09¹



¹ Controlled Work and Licensed Work are defined on page 17.

² The resource spend reported above excludes the release of £180m of provision relating to inactive civil cases.

The year in focus

Highlights																
We funded nearly 2.9 million legal aid acts of assistance overall	The LSC continued to help many individuals across England and Wales. During 2008/09 we funded 7% more acts of assistance than last year across the Community Legal Service (CLS) and Criminal Defence Service (CDS), including initial 'triage' services provided through the Community Legal Advice telephone helpline.															
£2,061.8m total (net) legal aid expenditure	We kept within budget on both the CLS Fund and CDS expenditure and our administration. The final administration resource expenditure was £124.4m.															
As at 31 March 2009 we held 2,613 civil and 1,781 criminal contracts with legal service providers	In April 2007 we introduced the civil Unified Contract. This replaced the two separate contracts for not-for-profit organisations and solicitor firms. We also introduced the Unified Contract for crime in July 2008. Under the Unified Contract the LSC contracts with organisations rather than individual offices. <table border="1" data-bbox="544 1048 1385 1279"> <thead> <tr> <th>Contract type</th> <th>Number of contracts</th> <th>Number of offices</th> </tr> </thead> <tbody> <tr> <td>Civil – solicitor</td> <td>2,253</td> <td>3,167</td> </tr> <tr> <td>Civil – not-for-profit</td> <td>360</td> <td>418</td> </tr> <tr> <td>Total civil</td> <td>2,613</td> <td>3,585</td> </tr> <tr> <td>Total crime</td> <td>1,781</td> <td>2,245</td> </tr> </tbody> </table>	Contract type	Number of contracts	Number of offices	Civil – solicitor	2,253	3,167	Civil – not-for-profit	360	418	Total civil	2,613	3,585	Total crime	1,781	2,245
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We responded rapidly to the economic downturn	We recognised that both legal aid clients and providers may have been impacted by the recent economic climate and we took steps to ensure the right services were available. In summary we: <ul style="list-style-type: none"> • Made further Legal Help acts of assistance available, particularly in debt, housing, employment and family services to ensure that providers helped as many people as possible within these resources, in addition to 64,000 additional acts of assistance in social welfare law that we allocated following a civil bid round in Summer 2008 • Committed to extending the telephone service's opening times, until 8pm in the evenings on weekdays, and on Saturday mornings 9-12.30pm, giving more people the opportunity to get advice at times that are convenient to them • Expanded the Housing Possession Court Duty Scheme to cover an additional 19 courts, ensuring coverage across 105 of 216 county courts in England and Wales, in addition to LSC funded schemes covering seven magistrates' courts that host possession sessions • Introduced weekly payment runs for our providers from 1 January 2009 • Amended our process for reconciling contracts to ensure providers have faster access to any contract underpayments. 															

<p>The LSC is back Online</p>	<p>Following initial implementation difficulties, LSC Online was successfully relaunched to providers through a phased roll out programme that we completed in March 2009.</p> <p>The phased relaunch process allowed us to invest in detailed provider training and interactive guidance, and to support providers up to and immediately after starting to use the online claims system. We received positive feedback on both the process of submitting claims via LSC Online and the relaunch process itself.</p>
<p>The LSC is an accredited Investor in People</p>  <p>INVESTOR IN PEOPLE</p>	<p>This year we gained corporate Investors in People accreditation.</p> <p>Investors in People is a nationally recognised standard used by organisations to benchmark their development policies. It is also used to improve an organisation's overall performance. By gaining accreditation we demonstrate that we effectively manage and develop our staff and adhere to certain key learning and development indicators.</p> <p>We also launched our <i>Employee Charter</i> in December 2008, which identifies the key values required as we move through the transformation programme so as to ensure the LSC remains a positive environment in which to work.</p>
<p>We are celebrating the 60th anniversary of legal aid</p> 	<p>30 July 2009 marked 60 years since the Legal Aid and Advice Act was passed and legal aid was established.</p> <p>We are celebrating this milestone with our providers and stakeholders and looking back at the positive impact legal aid has had on many people's lives over the years. We are also looking forward to the continuing contribution that legal aid has to make to society.</p> <p>In 2008/09 we launched a dedicated website to mark 60 years of legal aid: www.legalaid60.org.uk.</p> <p>The website charts the history of legal aid through an interactive timeline and explains how legal aid can help people today.</p>

“ I am delighted to confirm that the panel has endorsed my recommendation. The LSC truly deserves this and I thoroughly enjoyed meeting with you and your colleagues ”

Investors in People assessor

“ Easy access to support – waiting times on calls minimal, and excellent service. LSC Online itself seems much more stable and easy to use. I'm impressed by this relaunch ”

LSC provider

The year in focus

Legal aid transformation	
We clarified the future of the legal aid schemes	<p>We aim to achieve a legal aid system that demonstrates quality, value for money, sustainability of services and access to justice.</p> <p>The LSC and Ministry of Justice (MoJ) initiated a major programme of reforms in <i>Legal Aid Reform: The Way Ahead</i>, published in 2006 following Lord Carter's review of legal aid procurement.</p> <p>In 2008/09 we continued to implement changes to the way we contract with providers, including the method of paying for and procuring services. The key initiatives of 2008/09 are shown on the chart on pages 14 and 15.</p>
Transforming ourselves	<p>We underwent some key changes in 2008/09. Most notably we restructured the organisation, moving from four directorates to three, headed by a new Executive Team. We made headcount reductions, however this was hand-in-hand with improvements and new efficiencies in our business support services.</p>
Engaging with our stakeholders	<p>Provider Reference Groups, established across England and Wales in 2008, meet three times a year. These meetings allow communication with our providers on matters such as policy implementation, current issues and planning for the future.</p> <p>We are also committed to working with not-for-profit providers in line with the Compact between the Government and third sector.</p> <p>In June 2008 the MoJ published its <i>Third Sector Strategy</i>. We contributed to the strategy and remain involved in its plans for continuing engagement with the sector, aiming to deliver better public services and improve policy through effective partnerships. More information is available at www.justice.gov.uk.</p>
Implementing our strategy in Wales	<p>We have been working with the Welsh Assembly Government to implement the strategy <i>Making Legal Rights a Reality in Wales</i> and are committed to ensuring a high quality advice service across Wales.</p> <p>We published a joint letter written with the Welsh Assembly Government on our website in March 2009. It provided an update on several issues, including joint commissioning.</p>
Improving value for money on experts	<p>We continued to explore how the principles of our transformation programme could be extended to relate to our use of experts. To achieve value for money, we consulted (as part of our civil contracts 2010 consultation) on reducing costs claimed by experts on administration, travel and cancellation fees.</p> <p>We continued to develop a pilot to reform the delivery of health expert evidence. The pilot aims to provide jointly instructed health expert witness services to family courts in public law childcare proceedings. NHS Trusts and other organisations were encouraged to apply to take part, and the first pilot contracts have now been signed.</p>

<p>Committed to quality</p>	<p>We established the Quality Working Group in May 2008, with membership formed of stakeholders including the Law Society and the Bar Council. The objective was to review quality assurance processes and procedures affecting legal aid providers, and the group's findings were published in December 2008.</p> <p>We are also working with stakeholders to develop a Quality Assurance for Advocates scheme. A pilot involving criminal advocates began in February 2009.</p>
<p>Supporting the next generation of legal aid lawyers</p>	<p>In 2008/09 we awarded 150 grants worth £3m to students, to fund their legal training. This represents a 50% increase in the number of grants being awarded.</p> <p>First introduced in 2002, our training contract grants scheme was designed to attract new solicitors to the world of legal aid by contributing to training fees and a proportion of their initial salary with a legal aid organisation.</p> <p>The scheme is the largest single funding scheme for trainee solicitors. So far over £15m has been invested, enough for 600 legal aid solicitors to benefit from a grant.</p> <p>This year we also worked to increase awareness of careers in legal aid. Key achievements include:</p> <ul style="list-style-type: none"> • Attendance at university careers events run in partnership with the Legal Aid Practitioners Group • Targeted university events for black and ethnic minority students • Information sent to all university careers departments on careers in legal aid • Information promoting the scheme sent to all Legal Practice Course providers in order for them to pass it on to their students. <p>We also introduced a training contract grants scheme for family mediators. We made £0.1m available to support trainee mediators, emphasising our commitment to increasing the number of family disputes resolved by mediation.</p> <p>We continued to sponsor the 'Young Solicitor' category at the Legal Aid Lawyer of the Year awards.</p>

More information on all of these issues can be found on our website: www.legalservices.gov.uk.

The year in focus

Key developments 2008/09

2008

April

Agreement with the Law Society on Unified Contract and commitment to working in partnership

Derby, Leicester and Portsmouth Community Legal Advice centres opened for business

Criminal Defence Service Direct went national, providing non-means tested advice via telephone helpline in police stations

June

Consultation on amendments to Family Graduated Fee Scheme launched

Working group of main representative bodies, the LSC and MoJ set up to consider new scheme for Very High Cost Cases (crime)

August

First wave of providers rejoined the LSC Online system

LSC Update e-newsletter for solicitors and legal advisers relaunched to include news for advocates

LSC *Single Equality Scheme* published

May

The route map for civil legal aid milestones up to 2011 published

July

Unified Contract for crime implemented

Increases to solicitors' fee schemes resulting from Unified Contract agreement came into force

Civil tenders announced for additional acts of assistance worth £13m

Response to the consultation on best value tendering in criminal legal aid published

Outline route map for future possible criminal legal aid reforms published

New Vision and three directorate structure for the LSC developed

Workshops with partners and providers on the application of the Interests of Justice test took place

September

LSC head office relocated

2009

October

Consultation on bid rounds for 2010 civil contracts launched

Hull Community Legal Advice centre opened

Consultation on contracts for operating pilot virtual courts from police stations launched

December

Response to the consultation on delivery transformation published, setting out plans for electronic and other new ways of working

Consultation on next phase of family law fees launched

Consultation on new Very High Cost Cases (crime) scheme launched

First meeting of Client Diversity Group held

Review of peer review and other quality assurance procedures published

Reconciliation margin reduced to 5% giving providers faster access to outstanding payments

February

Quality Assurance for Advocates pilot launched

Decision on Family Graduated Fees Scheme published

Consultation on controlling costs of prison law advice launched

First year review of Litigators' Graduated Fee Scheme began

November

17 additional Housing Possession Court Duty Schemes started, covering 19 county courts

Joint consultation with the MoJ on introducing means testing in Crown Courts launched

Aspire programme launched, providing mentoring for young people

Report on outcomes of contract compliance audit review published

January

Tender for family advice on the CLA telephone helpline launched, following a successful pilot

Focus newsletter for providers relaunched as a digital magazine

Focus group held aimed at improving access to legal aid services for victims of domestic abuse

Three directorate structure with new Executive Directors and Senior Management Team established

Weekly payments for providers began

March

Second consultation on 2010 crime contracts and best value tendering launched

Decision made to extend current Very High Cost Cases (crime) Panel following consultation

Investors in People accreditation awarded to the LSC

Virtual court contract amendments issued

Relaunch of providers on LSC Online successfully completed

Significant reduction in processing times for legal aid applications and bills achieved, which resulted in additional payments to legal aid providers of £41m

The year in focus

Case study



Gurkhas win right to settle in UK

Some of the bravest people you could meet visited our head office at Abbey Orchard Street, London in October 2008 to say thank you to the LSC.

The Nepalese Gurkhas expressed their gratitude for funding their immigration battle in the High Court, which was to pave the way to them being granted the right to settle in the UK.

There were six lead claimants in the High Court challenge to the Government's discretionary policy towards Gurkha immigration to the UK. The High Court ruled that the existing policy was not sufficiently clear.

Actress and campaigner Joanna Lumley said: "This is the welcome we have always longed to give."

Community Legal Service (CLS)

The CLS provides civil legal help and representation via Community Legal Advice (CLA) as well as through solicitors and not-for-profit agencies, such as Citizens Advice Bureaux and Law Centres. The LSC awards contracts to providers which are split by category of civil law, allowing us to allocate funding to the areas where clients need it most.

For initial advice and assistance, members of the public often use CLA. Where face-to-face advice, assistance or representation in proceedings is needed, services are delivered in two ways:

Controlled Work	Licensed Work
<ul style="list-style-type: none"> Covers basic levels of advice and representation Providers assist clients directly, with no need to apply to the LSC for each case Also referred to as Legal Help or Family Help Lower Encompasses Help at Court and representation in front of Mental Health Review Tribunals and the Asylum and Immigration Tribunal An act of assistance is each instance in which a provider gives legal help to a client, not including representation in court. 	<ul style="list-style-type: none"> Accounts for all other types of civil work, with the exception of Very High Cost Cases, which are managed under specialist contracts Funding applications need to be submitted to the LSC for each case. The LSC decides whether funding criteria and the merits test are met. Limits in relation to the work are then set, which may be varied on application by the client.

<p>We are ensuring access to justice</p>	<p>Our core purpose remains to provide access to quality legal services for clients, from initial advice to representation in court.</p> <p>It has been a difficult year in terms of managing a finite budget within a challenging economic climate. However, we have worked hard to ensure that a continued service is available to those who need it the most.</p>
<p>We spent £887.1m on funding civil legal providers</p>	<p>This represents an increase of 12% in total funding compared with 2007/08, reflecting an increase in the work done.</p> <p>Not-for-profit organisations continue to be major providers of civil Legal Help, accounting for 32% of all Legal Help work claimed in 2008/09, and 67% of our provision in social welfare law. 2008/09 was the first full year in which these organisations claimed according to the same rules as solicitors, to a total resource value of £76m.</p>

“ I don't know where I would be without them ”

widow praising Leicester CLAC in local newspaper after they helped save her from eviction

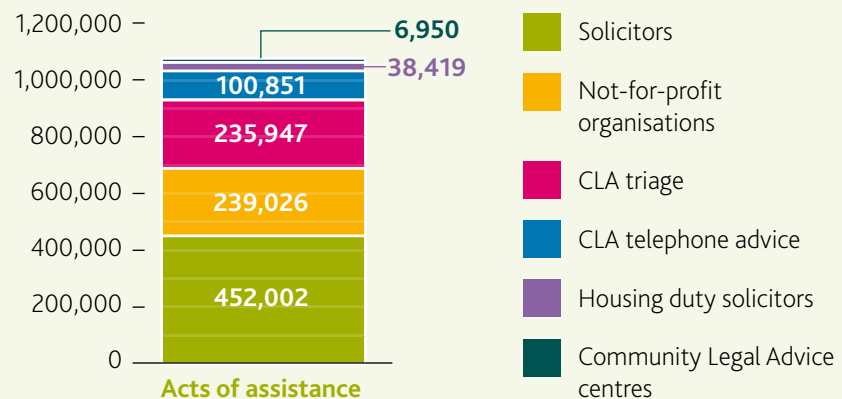
The year in focus

We funded over 1 million Legal Help acts of assistance

We set a target to deliver 1 million Legal Help acts of assistance via face-to-face and telephone advice during 2008/09. We met this target with a total of 1.07 million acts of assistance being delivered.

We also provided an additional 94,983 demand-led immigration acts of assistance, and issued 145,286 certificates for Licensed Work.

Acts of assistance target¹



¹ From 2008/09 the acts of assistance measurement was changed to include 'triage' provided by the CLA operator service.

Methods of delivering services

Community Legal Advice

CLA offers free, confidential and independent civil legal advice and assistance



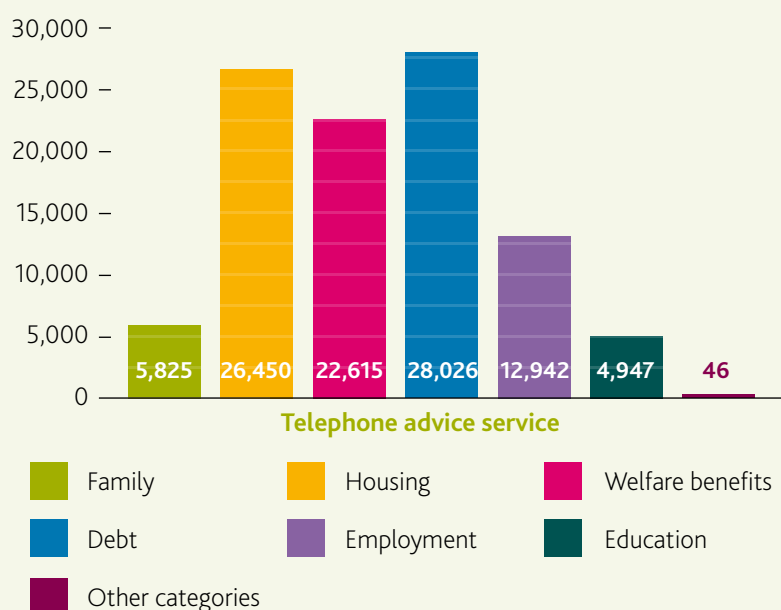
Anyone can contact CLA to be pointed in the right direction for further assistance and individuals eligible for legal aid can get specialist advice and assistance. CLA services include:

- A telephone helpline, providing initial advice and, where necessary, assistance in finding further help. Those seeking advice can call 0845 345 4 345
- A 'call me back' service, so individuals can request that a telephone adviser call them back at a specified time by completing their details on the website (which includes the ability to request a call back in a language other than English) or texting "legalaid" to 80010
- The CLA website, found at www.communitylegaladvice.org.uk, which includes free legal information leaflets and factsheets, a legal aid calculator to determine eligibility for legal aid and a directory of advisers and solicitors possessing the CLS Quality Mark
- Digital interactive television, where CLA can be accessed via remote control for those with limited access to the internet
- Community Legal Advice centres and networks, providing advisory and representation services for a broad range of issues
- Leaflets on individual categories of law, which are available at a wide variety of locations across England and Wales.

CLA provided 336,798 acts of assistance

Specialist telephone advisers handled 100,851 cases across a range of legal categories during 2008/09, an increase of 19% on 2007/08. In addition, 235,947 enquiries were closed by the operator service by either resolving the issue to the clients' satisfaction or referring to a non-LSC funded source (known as triage).

Specialist telephone advice



There were over 2 million visits to the CLA website

387,826 leaflets were downloaded, an increase of 55% compared with 2007/08 and over 16 million individual pages were viewed, an increase of 53% since last year. In addition, approximately 2 million leaflets and marketing materials were distributed to organisations and members of the public, covering topics such as debt and divorce.

Reaching diverse clients

The CLA helpline continues to reach diverse clients, offering three-way translation services in 170 languages. Typetalk and Minicom are also available for deaf and hard-of-hearing clients. British Sign Language users can now obtain assistance via the specialist pages of the CLA website, where services such as information videos and advice via webcam are available. 20% of our clients assess themselves as of a minority ethnic origin and 20% as having a disability.

The year in focus

Face-to-face services	
2,613 CLS contracts held for Controlled Work	There was a decrease of 121 civil contracts held by providers as at 31 March 2009 compared with the previous year, which follows the trend of previous years through the consolidation of services. Not-for-profit agencies held 360 of these contracts, a decrease of 12.
10% increase in acts of assistance for Controlled Work	The total number of all types of acts of assistance under Controlled Work contracts increased by 10% this year. This was due in part to an increase in demand and our response to the effects of the economic downturn.
6% increase in the number of Licensed Work applications	Providers that have been granted contracts for Controlled Work are allowed to make applications to do Licensed Work. These applications increased by 6% during the year and resulted in a 5% increase in the number of Licensed Work certificates granted. Much of this increase occurred during the last quarter of the year.
14% increase in the volume of Controlled Work matters completed	Along with the increase in acts of assistance, a corresponding increase in the volume of completed work was also observed for Controlled Work. However, for Licensed Work there was a small decrease in closed cases in line with the trend from previous years. This does not match the increase in applications due to the longer case length associated with this type of work.
Licensed Work average case costs continued to increase	Average Licensed Work case costs increased by 4% for both family work and non-family work funded by the LSC. In non-family work where the costs were met by the opponents, there was a decrease of 8% in average cost.
80% of cases resulted in a substantive benefit for the client	This year saw a small increase of 2% in the overall success rate of Controlled and Licensed Work. However there was a large increase in non-family/immigration Licensed Work of 8%, with some categories such as mental health (10%) and clinical negligence (43%) showing even larger increases compared to last year.

“ Our lawyer helped us overcome a very emotional time for me and my family. She fought our battle until it had been successful ”

client praising Young Legal Aid Solicitor of the Year Jo Hickman

Case study



Wrongly convicted man freed after 27 years

One of the longest miscarriages of justice in the UK ended in 2009 when Sean Hodgson, 57, walked free from the Court of Appeal.

Legal aid, coupled with the efforts of his tenacious solicitor Julian Young, helped Sean to secure his freedom.

Sean was sentenced to life imprisonment in 1982 for the murder in Southampton three years before of Teresa De Simone, 22, a clerical worker and part-time barmaid.

Sean originally confessed to the killing, but he retracted his confession at the start of his trial. His defence argued that he was suffering from a disorder which made him a pathological liar, but the jury unanimously convicted Sean after just three hours and 15 minutes of deliberation.

Decades later DNA tests proved that the crime could not have been committed by Sean.

The Court of Appeal quashed Sean's conviction in March 2009, calling it "unsafe". Hampshire police then reopened their investigation and matched the DNA evidence to another man.

Hugh Barrett, Executive Director for Commissioning, and Sue Davison, CDS Administrator in our London regional office, met with Sean as he thanked the LSC for providing him with access to justice. Sue received special praise from Julian Young for ensuring a quick turnaround of requests for funding the work the solicitors put into the appeal.

Hugh said: "In our 60th year, this is yet another powerful example of legal aid's ability to provide access to justice for those who need it most."

The year in focus

Criminal Defence Service (CDS)

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.

<p>Access to services and funding</p>	<p>We ensure provision of a full range of criminal defence services, from police station advice and assistance to defending clients in court if charged.</p> <p>The overall CDS spend of £1,174.8m enabled us to provide nearly 1.6 million acts of assistance.</p> <table border="1" data-bbox="544 801 1378 1368"> <thead> <tr> <th>Advice or representation</th> <th>Types of service¹</th> <th>Numbers</th> <th>Total claimed (£000)</th> </tr> </thead> <tbody> <tr> <td rowspan="2">Police station: suspects not yet charged</td> <td>Free standing advice and assistance</td> <td>10,357</td> <td>1,434</td> </tr> <tr> <td>Police station advice and assistance</td> <td>860,736</td> <td>191,026</td> </tr> <tr> <td rowspan="3">Lower courts: defendants who have been charged</td> <td>Court duty solicitor sessions</td> <td>88,424</td> <td>22,820</td> </tr> <tr> <td>Representation orders</td> <td>500,554</td> <td>242,584</td> </tr> <tr> <td>Advice, assistance and advocacy where no representation order granted</td> <td>59,918</td> <td>25,812</td> </tr> <tr> <td rowspan="2">Higher courts: defendants who have been charged</td> <td>Very High Cost Criminal Case contracts let</td> <td>397</td> <td>112,094</td> </tr> <tr> <td>Representation orders</td> <td>124,439</td> <td>587,353</td> </tr> </tbody> </table> <p>1 File reviews and second claims for deferred sentencing are not included as these do not represent actual acts of assistance.</p> <p>2 The total claimed value includes income due to the recovery of defence cost orders.</p>	Advice or representation	Types of service ¹	Numbers	Total claimed (£000)	Police station: suspects not yet charged	Free standing advice and assistance	10,357	1,434	Police station advice and assistance	860,736	191,026	Lower courts: defendants who have been charged	Court duty solicitor sessions	88,424	22,820	Representation orders	500,554	242,584	Advice, assistance and advocacy where no representation order granted	59,918	25,812	Higher courts: defendants who have been charged	Very High Cost Criminal Case contracts let	397	112,094	Representation orders	124,439	587,353
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<p>CDS Direct – access to advice and value for money</p>	<p>CDS Direct provides members of the public detained by the police on suspicion of less serious criminal offences with direct access to telephone advice, which can reduce their time in custody.</p> <p>The service now covers own client work as well as duty work. Clients may change to their own solicitor at a later stage if their case goes to court.</p> <p>CDS Direct received 134,141 requests to provide telephone advice in 2008/09. In terms of response times, over 98% of calls back to police stations were made within 15 minutes and 99.7% within 30 minutes. The overall average time to make a call following a request was 2 minutes and 51 seconds.</p>																												
<p>100% coverage of the 24-hour duty solicitor schemes</p>	<p>As with 2007/08, the CDS maintained total coverage of the duty solicitor schemes at police stations across England and Wales.</p>																												

Access to justice – from police stations to higher courts

In cooperation with other organisations in the justice system, we are responsible for assessing the financial eligibility of all legal aid applicants in the magistrates' courts and for assessing and paying all claims for legal aid work in the Crown Court and other higher courts. We also work closely with defence teams in managing individual case contracts for Very High Cost Cases.

We introduced the crime Unified Contract on 14 July 2008, with 1,799 contracts issued. At 31 March 2009, the number of active contracts was 1,781.

Under these contracts we funded 1.4 million acts of assistance at police stations and magistrates' courts and 124,439 at the higher courts.

The Public Defender Service (PDS) opened 3,679 files in 2008/09



Established in 2001, the PDS was the first salaried criminal legal aid provider in England and Wales.

There are now four PDS offices: Cheltenham, Darlington, Pontypridd and Swansea. PDS lawyers are available 24 hours a day, seven days a week to provide independent advice, assistance and representation on criminal matters.

The LSC directly employs PDS lawyers, but they must adhere to the *PDS Code of Conduct* to ensure independence.

A more detailed statistical analysis of our work can be found on our website: www.legalservices.gov.uk.

Our performance



LSC receives 25,000 phone calls a week, from contracted providers as well as legal aid clients.

Each year we set a series of Key Performance Indicators (KPIs). These are designed to help us work towards meeting our Strategic Objectives and ensure that we maintain fair access to justice.

Whilst the KPIs vary from year to year, there are some which remain constant, such as monitoring the access to services that we provide, and ensuring a sustainable legal aid scheme through targets on our finances.

The 'balanced scorecard' on pages 26 and 27 shows how we performed against our KPIs as follows:

✔ **Achieved**

◐ **Partially achieved**

✘ **Not achieved** – where this is used, we have included a footnote to explain our performance in more detail.

This year, we achieved 17 KPIs, partially achieved 1 and missed 2.

“ LSC staff are flexible and provide a fast turnaround ”

praise from award-winning lawyer Yogi Amin who brought legally-aided cases to win patients' funding for life-saving cancer drugs

Case study



A matter of life and death

Cancer patient Colin Ross won a battle in the High Court for lifesaving drug treatment that could give him an extra three years of life.

Colin Ross, 55, received legal aid to challenge a decision by West Sussex Primary Care Trust (PCT) to refuse funding for him to obtain the drug Revlimid.

The High Court heard he would have had two months to live without the drug. In his ruling, Judge Simon Grenfell said the PCT's decision was "one which no reasonable authority could have made on the application before it".

The LSC's Liverpool office granted the legal aid certificate for Mr Ross, and Louise Ford of the LSC's Brighton Special Cases Unit managed the case. The solicitor for Mr Ross was Yogi Amin of Irwin Mitchell.

Mr Ross was too ill to attend court but he was clear about the significance of legal aid to his cause: "There were several areas of support I received throughout, but it was legal aid in particular that allowed me to go all the way – as far as was necessary – in order to obtain a drug that I felt I had every right to access."

Colin's partner Wendy Forbes-Newbegin, herself fighting breast cancer, added: "We would have been lost without legal aid."




The judge issued an emergency order at the end of the hearing to allow Mr Ross to get immediate treatment.






Our performance

Finance			
Strategic Objective	KPI headline	KPI	Status
Deliver a sustainable legal aid scheme and an efficient and diverse organisation	Financial control	Live within our agreed administration budget for 2008/09	
		Live within fund budget for 2008/09	
		Reduce the amount of outstanding debit notes as at 31 March 2008 by £30m including a recovery target of £16m	
		Reconciliation – maintain 98% of contracts within 90-110%	

Customers				
Strategic Objective	KPI headline	KPI	Status	
Maximise access to quality services to meet the diverse needs of the clients we serve	Access to services	i. 95% police station duty calls accepted within 30 minutes ii. 100% coverage of court duty solicitors		
		1,000,000 acts of assistance: 700,000 face-to-face 200,000 Community Legal Advice triage 100,000 Community Legal Service specialists		
		Increase Legal Help spend by £5m		
		i. Maintain at least 99% of eligible population being within 45 minutes on public transport of a family provider ii. Maintain at least 95% of the eligible population being within 45 minutes on public transport of a social welfare law provider iii. Increase by 2% eligible population being within 45 minutes on public transport of a social welfare law provider for 3 core categories (housing, debt and welfare benefits)		
	Quality services	i. Increase from 36% to 56% the number of crime providers with a valid peer review rating ii. Maintain civil peer review panel membership at current levels, delivering 328 reviews		
		80% of all providers with a risk rating will receive a positive intervention		
		Developing services to meet diverse client needs	Client and public engagement strategy agreed by October 2008, including a system for measurement	
	Deliver a sustainable legal aid scheme and an efficient and diverse organisation	Internal transformation	Maintain national customer service score at 90%	

1 The LSC did not achieve this KPI as set. However, we did run an interim bid round for new contracts in Summer 2008 that resulted in an increase in the number of access points for civil help. We now have improved data from which to benchmark journey times on public transport and will continue to focus on improving access in 2009/10.

People and processes			
Strategic Objective	KPI headline	KPI	Status
Deliver a sustainable legal aid scheme and an efficient and diverse organisation	Scheme transformation	Delivery of civil and crime elements of the transformation programme on time, on cost and delivering anticipated benefits	
	Process transformation	Relaunch a fully functioning version of LSC Online to the entire external provider base by close of the 2008/09 financial year	
	Internal transformation	90% score on revised people scorecard	 ²

Innovation			
Strategic Objective	KPI headline	KPI	Status
Ensure the efficient delivery of justice and wider government priorities	Whole system initiatives	Full membership and 95% attendance at Local Criminal Justice Boards; full membership of Local Family Justice Councils; scope formal feedback mechanism for providers via LSC website by 30 September 2008; implement by 31 December 2008; agree with Office for Criminal Justice Reform whether defence costs should be included in Waterfall model ³ ; develop a better understanding of the services currently delivered and ensure we keep stakeholders informed of developments.	
		Better Regulation Executive's £15m net reduction in administration burden on providers by the LSC by April 2009	
	Corporate social responsibility	Abbey Orchard Street move – full business as usual achieved by September 2008	
		i. Achieve a 10% reduction in paper consumption ii. Achieve a 5% reduction in electricity consumption iii. Achieve a 5% reduction in travel costs iv. Achieve 50% of waste recycled	 ⁴
		Social/community engagement – launch Aspire programme	 ⁵

2 The people scorecard is comprised of six key elements: sickness absence, headcount, performance and development review quality, impact of learning, engagement (such as positive response levels to the staff survey) and diversity. Each element comprises one or more separate targets. We scored an average of 70% on our people scorecard over the year. The LSC attaches a great importance to its staff and their development, as recognised when we received Investors in People accreditation in March 2009.

3 The Waterfall model highlights the costs of different activities across the justice system and where pressures exist.

4 In early Spring 2009 we achieved the international environmental standard ISO 14001 certification for three of our offices: Bristol, Manchester and our head office in London. We will continue to improve our environmental credentials in 2009/10.

5 The Aspire programme provides mentoring for young people from disadvantaged backgrounds. In its first year, 2008/09, the LSC trained 13 staff who volunteered to mentor students from four London schools. Aspire helps students achieve their potential while giving staff the opportunity to work with young people.

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Management commentary

Introduction

The Legal Services Commission (LSC) is a non-departmental public body established under the Access to Justice Act 1999 and sponsored by the Ministry of Justice (MoJ). We are responsible for the provision of legal aid in England and Wales, through the Community Legal Service (CLS) and the Criminal Defence Service (CDS).

A description of the LSC's main role, activities and development of key initiatives is set out in earlier chapters of our Annual Report and Accounts 2008/09.

This year, we achieved 17 Key Performance Indicators (KPIs), partially achieved 1 and missed 2. You can find more detailed information in the 'Our performance' chapter at page 24.

Senior directors

Executive Team

The LSC Executive Team is made up of:

- Carolyn Regan, Chief Executive
- Hugh Barrett, Executive Director for Commissioning
- Phil Lambert, Executive Director for Business Support
- Hazel Parker-Brown, Executive Director for Corporate Services.

Hugh Barrett and Phil Lambert joined the LSC on 1 December 2008 and Hazel Parker-Brown joined on 3 December. In 2008/09, there were other members of the Executive Team including:

- Rod Clark, Interim Executive Director for Policy (19 May 2008 to 7 August 2008)
- Richard Collins OBE, Executive Director for Policy (until 30 September 2008)
- David Godfrey, Executive Director for Corporate Services (until 5 December 2008)

- Mike Jeacock, Executive Director for Service Delivery (until 30 April 2008)
- Crispin Passmore, Acting Executive Director for Policy (18 August 2008 to 31 December 2008)
- Helen Riley, Executive Director for Transformation (until 31 December 2008)
- Gary Robertson, Interim Executive Director for Service Delivery (6 May 2008 to 19 December 2008).

Non-executive Commissioners

Our non-executive Commissioners are:

- Sir Bill Callaghan, Chair
- Angus Andrew
- Barry Elliott
- Tina Fahm
- Carolyn Hamilton
- Jane Hickman
- Tom Jones OBE
- Lionel Joyce OBE
- Julian Lee (from 1 November 2008)
- Beryl Seaman CBE JP
- Peter Smith
- Dr David Wolfe.

Sir Michael Bichard was the Commission Chair until 31 August 2008. David Edmonds CBE was a Commissioner until 30 June 2008.

You can find more information on our Executive Team and non-executive Commissioners, including their registers of interests, at www.legalservices.gov.uk.

Financial reports 2008/09

Management commentary (*continued*)

Audit Committee

The LSC's Audit Committee ensures that we adhere to the highest standards of propriety in the use and stewardship of public funds and encourages proper accountability for the use of those funds. The Committee also promotes the development of internal control systems which help satisfy the Commission that the organisation will achieve its objectives and targets. During 2008/09 membership of the LSC's Audit Committee comprised:

- David Edmonds CBE (Chair until June 2008)
- Barry Elliott (Chair from July 2008)
- Tina Fahm
- Tom Jones OBE.

Parliamentary scrutiny

The LSC's restructuring plans and the impact of it on the legal aid service in Wales were raised in Parliament by Julie Morgan MP in an adjournment debate in Westminster Hall on 21 January 2009. Following the debate, the Welsh Affairs Committee agreed to undertake an inquiry examining the decision by the LSC to reduce its operations in Cardiff. On 24 March 2009 the LSC's Chief Executive, Executive Director for Business Support and Wales Director gave evidence to a hearing of the Welsh Affairs Committee. The Legal Aid Minister also attended.

The Committee was undertaking an inquiry into the LSC's restructuring plans. The LSC aimed to centralise operational support and administrative work in five business centres by 2012. The proposed changes included transferring business support for civil legal aid work out of Wales.

The LSC recognises the Welsh devolution arrangement and is fully committed to ensuring that legal aid provision in Wales continues to develop and that tailored services for Welsh clients continue to be maintained and improved. As such, we will ensure there is an effective LSC representation in Wales. We welcome the independent scrutiny of Parliament and will carefully consider the Committee's recommendations during 2009/10.

The environment, social and community issues

We are committed to reducing our impact on the environment and to operating in accordance with best environmental practices. We published an updated environmental policy on the LSC website in January 2009.

It outlines our key objectives and principles in improving our environmental performance and meeting or exceeding relevant legislation and requirements.

In March 2009 we achieved ISO 14001 certification for our London Head Office, Bristol and Manchester sites. ISO 14001 is the most recognised international standard for Environmental Management Systems. Our actions are consistent with the Government Sustainable Development Strategy. The LSC is committed to minimising waste, using energy efficiently and promoting good environmental practice amongst staff.

Performance against our Corporate Social Responsibility KPIs can be found in the 'Our performance' chapter.

Employee involvement

Managers hold regular section and team meetings to communicate the LSC's objectives to all staff, where everyone can ask questions and give their views about organisational issues. These meetings include discussion of the *Core Brief*, a short monthly summary of our main corporate news.

As the organisation undergoes a significant period of transformation, the Chief Executive, Executive Team and the Senior Management Team have kept staff updated via face-to-face briefings, intranet discussion forums and a monthly update from the Chief Executive. We have conducted a regular staff survey which includes questions about communication, change and leadership, and we use the results to improve how we communicate with staff.

The LSC formally communicates with its staff on issues and changes to the terms and conditions of employment through the Joint Consultative and Negotiating Committee. The Committee is made up of representatives of management, employees and elected members of the GMB (Britain's General Union) and the First Division Association, the two unions recognised by the LSC to represent staff who are members of the respective unions.

In March 2009, the LSC was awarded the Investors in People national standard. More information can be found in the 'Year in focus' chapter at page 8.

Equal opportunities and diversity

The LSC is committed to equality of opportunity both as an employer and in the provision of services. The LSC is committed to the principle that no job applicant or employee shall face discrimination. We do not

Management commentary (continued)

discriminate in the promotion, training and development of staff. We value the variety of backgrounds, perspectives, values and beliefs that diversity brings and aim to be an organisation where everyone has an equal right to dignity and respect.

Our employee assistance programme supports employees who have become disabled to continue their employment.

The LSC does not tolerate any practices that result in the provision of a lower standard of service to any group or individual because of unfair or unlawful discrimination. Our *Single Equality Scheme*, which encompasses equality and diversity, gender and disability, together with our *Equalities Annual Report* can be found at www.legalservices.gov.uk.

Sickness absence data

As part of our people scorecard KPI, we had a target for annual sickness absence per full time equivalents to be no more than 7 days. Our performance against this target was 7.98 days.

Research and development

Strategic research in the civil and criminal justice fields is conducted by the Legal Services Research Centre (LSRC), the strategic research division of the LSC. This research helps us to formulate our policies. More information about the work of LSRC can be found at www.lsrc.org.uk.

Charitable donations

During 2008/09, the LSC did not make any charitable donations.

Financial review 2008/09

Details of payments on the CLS Fund and CDS as well as our administration can be found in the 'Year in focus' chapter at page 8.

Core costs

In 2008/09, our total administration resource expenditure was £124.4m. This included a number of change-related costs, including our head office relocation, redundancies, new IT systems and project-related short-term staffing. This investment in change will deliver benefits in 2009/10

and beyond, as part of the implementation of our reform programme. The reform programme has been designed to ensure that we can live within our agreed reduced future year budgets, whilst continuing to manage legal aid effectively and providing a quality service to providers and clients.

Permanent and temporary staff numbers have been reducing since September 2008, as our reform programme gains momentum, and the relaunched LSC Online has successfully reduced the need for manual handling of providers' claims. This is enabling us to make progress towards our target of reducing administrative costs by 30% over the period to 2012.

Pension fund

An advance payment of £6m was made in March 2009 with the agreement of the MoJ. This will help towards meeting future liabilities. Details of the pension scheme's assets, liabilities and contributions are set out in note 3 of the LSC financial statements. The LSC is reviewing its future pension arrangements in the context of its total reward strategy, which will reflect market competitiveness and affordability and which is due to be implemented, subject to consultation, in 2010/11.

Grant and loan making powers

Under section 6 (3)(c) of the Access to Justice Act 1999, the LSC may fund services as part of the CLS by making grants or loans to persons or bodies to enable them to provide or facilitate the provision of services. During the year, we made grants in accordance with the Secretary of State's specific direction. This expenditure is reported in note 3 of the CLS Fund and CDS accounts; Direct Services, grants and similar.

Payment of suppliers and performance

A bill from a legal aid provider is only eligible for payment once it has been assessed. The LSC needs to assess bills submitted by providers and resolve any queries before the bill can be agreed for payment. We currently commit to pay bills within 30 days of the assessment being completed. In fact, we pay the majority sooner than this. We make payments on account, which effectively means we are paying in advance for much of the work covered by the bills.

Financial reports 2008/09

Management commentary (*continued*)

The LSC started making more frequent payments to our providers in January 2009 and also changed its systems to make the VAT changes. Performance against internal targets for the timely payment of bills is set out in the table below.

The LSC aims to collect receipts and promptly pay all properly authorised invoices from the administration budget in accordance with the terms of contracts or within 30 days. We paid 98% of properly authorised administrative invoices within 30 days during 2008/09. We will continue to monitor payment performance on a monthly basis during 2009/10. The payment performance figures are unaudited.

Post balance sheet events

There are no post balance sheet events reported in 2008/09.

Going concern

The going concern basis is set out in note 1m) and note 16 of the CLS Fund and CDS financial statements and in note 1m) and note 17 of the LSC administration financial statements.

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 *Statistical Information 2008/09* document that accompanies our annual report on the LSC website.

Reporting of personal data related incidents

In 2008/09 there were no personal data related incidents formally reported to the Information Commissioner's Office. 31 incidents were recorded centrally but did not fall into the criteria for reporting to the Information Commissioner's Office (see Table A). Small, localised incidents are not recorded centrally and are not cited in these figures.

Bills paid	Targets 2008/09	Performance 2008/09	Targets 2007/08	Performance 2007/08 ¹
Civil bills – taxed & assessed	8 weeks (100%)	94%	8 weeks (100%)	91%
Family Graduated Fee bills	8 weeks (100%)	95%	8 weeks (100%)	95%
Criminal non-standard fee	8 weeks (100%)	99%	8 weeks (100%)	99%

1 These 2007/08 performance figures reflect the accurate position based on the latest information and replace the figures published on page 51 of the LSC Annual Report and Accounts 2007/08. These figures are not subject to audit.

Table A: Summary of other protected personal data related incidents in 2008/09

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	2
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	5
III	Insecure disposal of inadequately protected electronic equipment, devices or paper documents	1
IV	Unauthorised disclosure	16
V	Other	7

Management commentary (continued)

Principal risks

The areas of activity that we consider to be high risk include:

- Funding allocation may be insufficient to deliver our programme of work
- Delivery of the transformation programme
- Delivery of high quality legal services to meet clients' needs.

We continuously monitor these risks and our policy for managing risk is set out in our *Risk Management Statement*, which is available at www.legalservices.gov.uk. Our 2008/09 'Statement on internal control' is on page 42.

The risks relating to financial instruments are disclosed in note 21 of the CLS Fund and CDS financial statement and note 23 of the LSC administration financial statements.

Forward look

Our *Strategic Plan 2009-12* sets out our high-level strategy. The plan is specific about our objectives and the key actions we aim to take to achieve them. It can be found at www.legalservices.gov.uk.

The key areas of work for the coming year are:

- **Family legal aid funding 2010** – A consultation was published in December 2008 to address our concerns over the future sustainability of legal aid, given the significant increase in family legal aid average case costs. The proposals also align with our move towards standard fees.
- **Civil contracts 2010** – We launched a consultation on this in October 2008. Key objectives of this work are to ensure that new contracts are awarded through an open and transparent process, that complies with EU procurement law and to continue to work towards easier access to face-to-face advice for clients in accordance with the CLS strategy and family strategy.
- **CDS contracts 2010 including best value tendering** – The current Unified Contract (Crime) will (following extension) expire in July 2010. This consultation, launched in March 2009, covers proposals for the procurement of new contracts including through best value tendering in two specified areas of procurement. The response to this consultation was published in July 2009.
- **Crown Court means testing** – Means testing is already in place in the magistrates' courts and the LSC and MoJ consulted on extending this to the Crown Court. Means testing underpins the Government's commitment to the principle that those that can afford to pay for their defence should do so. It also ensures that best use is made of taxpayers money and that limited resources can be used to help those most in need. Those who cannot afford to pay for their defence should still receive public funding. The response to this consultation was published in June 2009.
- **Delivery transformation** – This project aims to reduce the cost of administering the legal aid scheme significantly and to increase the operational efficiency of the LSC. Providers would benefit from faster turnaround times for claims processing as well as additional devolved powers. The clients, in turn, would benefit from faster decisions as providers exercise more devolved powers. A key element in achieving this will be through the delivery of streamlined, electronic processes fit for the future, including simpler and more devolved processes, reduced bureaucracy, increased automation and reduced paperwork.
- **IT sourcing** – The LSC's contract with the IT provider Steria ends in December 2009. All LSC desktops and servers will need to be replaced, and staff will require training by March 2010. This is a key priority as the contract will not be extended. Most of the equipment and software are old, difficult to support and will soon become increasingly unreliable. This will significantly drive up support costs and reduce overall LSC productivity. In addition to modernising the LSC operating infrastructure, replacing the systems will also enable the LSC to better comply with information security assurance guidelines.
- **e-forms** – In order to bring forward operational efficiencies ahead of delivery transformation, one area identified was the early adoption of electronic form submission and a full review of our current forms content and design. This would enable electronic transactions between the LSC and legal aid service providers.
- **Business support transition** – As part of the legal aid reform programme, we are simplifying and automating our internal processes and embracing e-business. Our vision is a faster service for our clients and our providers, delivered by reduced numbers of LSC staff from fewer locations. In 2009/10 we will remove

Financial reports 2008/09

Management commentary (*continued*)

operational processing work from our Brighton and Cambridge sites whilst reducing processing activity in our London regional office. This will facilitate efficiencies and headcount savings within our corporate services, as the requirement will be to service and support a leaner organisation with fewer staff and fewer sites. At the same time we are revising our approach to managing providers, which will allow us to realise efficiencies and savings. Our providers too will be able to unlock operational benefits and savings as they join us on a journey of reform for legal aid processing.

Signed for and on behalf of the Legal Services Commission

Carolyn Regan

Chief Executive and Accounting Officer

20 October 2009

Accounting standards

Under the 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, resource accounts for the CLS Fund and the CDS as well as the administration of the LSC detailing the resources acquired, held or disposed of during the year and the use of resources by the LSC during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the LSC and of its net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

The financial statements for the LSC's administration and the CLS Fund and the CDS are prepared in accordance with the Treasury's *Government Financial Reporting Manual* and applicable accounting standards.

Auditors

Paragraph 16 of Schedule 1 to the Access to Justice Act 1999 provides that the Commission's external auditor is the Comptroller and Auditor General. The cost of the audit is disclosed in note 6 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.

Remuneration report

This report summarises the Legal Services Commission's (LSC) policy on remuneration of the Executive Team and non-executive Commissioners.

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

The Pay Committee

The LSC's Human Resources Committee sits annually as a Pay Committee to determine the contractual arrangements and the salaries of the Chief Executive and the Executive Directors.

Membership of the LSC's Pay Committee consists of two Commissioners and three independent members. The members do not have any involvement in the day-to-day running of the LSC. The five members of the Pay Committee in 2008/09 were:

- Beryl Seaman CBE JP (Chair)
- Tina Fahm
- Helen Murlis*
- Beverley Shears*
- Duncan Brown.*

The Chief Executive, Executive Director for Corporate Services and the Director of Human Resources and Organisational Development may attend the Committee to assist it in its deliberations. These individuals do not participate in any decisions relating to their own remuneration.

Remuneration policy

Executive Team

The Chief Executive and the Executive Directors are employed on a full-time basis and their appointments are open-ended until they reach the normal retiring age of 60. The LSC does not operate a fixed policy on termination payments for Executive Directors outside of the provisions of its early retirement and early severance scheme.

Base pay

Executive Team base pay is determined by allocating them to one of three pay bands based on performance ratings agreed by the Chief Executive for Executive Directors and by the Chair for the Chief Executive. Increases to salary scales are based on the recommendations of the Senior Salaries Review Body (SSRB).

Non-consolidated performance payments

All Executive Directors are eligible for a non-consolidated performance payment up to a maximum of 20% of their individual salaries as part of their terms and conditions of employment. Non-consolidated performance payments are made for performance for the previous financial year. Therefore the non-consolidated performance payments shown in Table A are for 2007/08.

The non-consolidated performance payment scheme for 2007/08 placed emphasis on shared responsibility and, as well as being tied to the LSC's Key Performance Indicators (KPIs), there were culture and leadership targets for all Executive Directors. In 2007/08, the LSC achieved 22 out of 35 KPIs. The LSC's Head of Corporate Assurance independently validates whether these are achieved. The KPIs contributed to our corporate targets, of which we partially achieved seven out of eight in 2007/08. See

* Helen Murlis and Beverley Shears are both independent members of the HR Committee. Helen Murlis is a remuneration specialist and is a Senior Director for HayGroup. Beverley Shears was the Director of HR at the Ministry of Justice (from April 2009, she took up the role of the Director of Offender Management at the National Offender Management Service). Beverley has a background in change management and organisational transformation and also specialises in HR matters. Duncan Brown retired from the Committee in 2009.

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Remuneration report (*continued*)

the LSC's *Annual Report and Accounts 2007/08* for more details.

The aim of the 2008/09 scheme is to reinforce a team culture and shared responsibility ethos, whilst still recognising differences in the levels of individual contribution, and taking account of government pay policy for these levels of staff. The 2008/09 scheme consisted of: corporate performance, determined by the achievement of ten strategic objectives each of which is underpinned by a number of KPIs; individual performance, determined by the achievement of three individual objectives; and a discretionary award made against four additional criteria for the Executive Directors.

We will report on 2008/09 non-consolidated payments to the Executive Directors in our 2009/10 remuneration report.

Benefits in kind

Executive Directors currently in post are not entitled to any benefits in kind. As part of their remuneration package, former Executive Directors were entitled to taxable benefits in kind which consisted of a leased car, accommodation, reimbursement of travel from home to office and subsistence.

Pensions

During 2008/09, all Executive Directors except Gary Robertson were members of the LSC's No. 4 Staff Pension and Life Assurance Scheme. Details about the operation of the LSC's pension schemes are shown in note 3 of the administration accounts. Executive Team pension costs are shown at Table B.

Non-executive Commissioners

The Secretary of State for Justice appoints Commissioners for a fixed term and determines their pay, which is based on judicial salaries set by the SSRB. Commissioners can be reappointed once without the role being subject to open competition and can only serve for longer than a total of ten years in exceptional circumstances that have been agreed by the Commissioner for Public Appointments.

Commissioners are appointed with different time commitments but are paid the same daily rate, with the exception of the Chair. Commissioners are also reimbursed for travel and other expenses they incur and the taxation paid by the LSC on those expenses.

Commissioners' remuneration is neither performance related nor pensionable. Appointment to the Commission does not attract any other benefits, special arrangements or other remuneration.

If a Commissioner's appointment is terminated for reasons other than the expiry of their term, the Secretary of State for Justice may require the LSC to compensate that person. The amount would be determined by the Secretary of State based on the nature of the termination and the length of the term remaining. As in 2007/08, there were no terminations during 2008/09.

Remuneration report (continued)

Table A: Senior employees – employment costs (for the year ending 31 March 2009)							
Executive Team	Actual salary and allowances 2009	Full year equivalent salary and allowances 2009	Non-consolidated performance payments in 2009 (for 2007/08)	Benefits in kind in 2009 (for 2007/08)	Compensation paid	Total 2009	Total 2008
	£000	£000	£000	£000	£000	£000	£000
Carolyn Regan <i>Chief Executive</i>	194.8	194.8	18.8	N/a	N/a	213.6	200.0
Hugh Barrett ¹ <i>Executive Director for Commissioning</i> (from 1 December 2008)	46.7	140	N/a	N/a	N/a	46.7	N/a
Phil Lambert <i>Executive Director for Business Support</i> (from 1 December 2008)	46.7	140	N/a	N/a	N/a	46.7	N/a
Hazel Parker-Brown <i>Executive Director for Corporate Services</i> (from 3 December 2008)	43.7	134	N/a	N/a	N/a	43.7	N/a
Rod Clark ² <i>Interim Executive Director for Policy</i> (19 May to 7 August 2008)	N/a	N/a	N/a	N/a	N/a	N/a	N/a
Richard Collins OBE ^{3 & 4} <i>Executive Director for Policy</i> (to 30 September 2008)	142.3	135.0	11.4	N/a	250.3	404.0	148.4
David Godfrey ^{4 & 5} <i>Executive Director for Corporate Services</i> (to 5 December 2008)	158.0	139.9	22.0	N/a	81.7	261.7	160.0
Mike Jeacock ^{4, 5 & 6} <i>Executive Director for Service Delivery</i> (to 30 April 2008)	17.1	128.7	9.3	1.6	200.0	228.0	231.4
Crispin Passmore <i>Acting Executive Director for Policy</i> (18 August 2008 to 31 December 2008)	43.9	117.8	N/a	0.3	N/a	44.2	N/a

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Remuneration report (continued)

Table A: Senior employees – employment costs (for the year ending 31 March 2009)							
Executive Team	Actual salary and allowances 2009	Full year equivalent salary and allowances 2009	Non-consolidated performance payments in 2009 (for 2007/08)	Benefits in kind in 2009 (for 2007/08)	Compensation paid	Total 2009	Total 2008
	£000	£000	£000	£000	£000	£000	£000
Helen Riley ⁶ <i>Executive Director for Transformation</i> (to 31 December 2008)	104.0	131.9	13.1	13.7	N/a	130.8	159.5
Gary Robertson ⁷ <i>Interim Executive Director for Service Delivery</i> (6 May to 19 December 2008)	230.7	N/a	N/a	N/a	N/a	230.7	N/a

Notes

Non-consolidated payments awarded relate to performance for the 2007/08 financial year.

Benefits in kind may consist of a leased car and travel, subsistence and accommodation and income tax reimbursed by the LSC. This income tax figure may vary slightly from the final tax assessments by the Inland Revenue.

There were no additional expenses allowances other than reimbursement of actual expenses incurred directly.

- Hugh Barrett is a part time non-executive director with the Criminal Records Bureau, which compensates the LSC for his time (December 2008 to March 2009 – £2,560). The figure disclosed in the table above is Hugh's gross remuneration.
- Rod Clark was employed as an interim Executive Director from 19 May to 7 August 2008. He was on secondment from the Ministry of Justice.
- Richard Collins was made redundant during 2008/09.
- The differences in the compensations paid to Richard Collins, David Godfrey and Mike Jeacock were due to the different individual contractual terms the LSC had with them and the agreements reached when they departed.
- Mike Jeacock and David Godfrey were paid compensation for loss of office during 2008/09.
- Benefits in kind for 2007/08 have been restated to exclude employer's National Insurance costs previously included in the total.
- Gary Robertson was an interim Executive Director engaged on a contract through the employment agency, Veredus. The cost disclosed above was not paid directly to Gary Robertson. It was the value of the Veredus contract and reflects market rates for interim contract work.

Remuneration report (continued)

Table B: Senior employees – pension costs								
	Total accrued pension payable at age 60 at 31 March 2009 and related lump sum		Real movement in pension and related lump sum payable at age 60		CETV at 31 March 2009	CETV at 31 March 2008	Real increase in CETV	Employer contribution to pension account including risk benefit cover
	£000	£000	£000	£000	£000	£000	£000	£000
Carolyn Regan	Pension Lump sum	66.3 198.9	Pension Lump sum	2.0 6.1	1,405	1,185	35	34.2
Hugh Barrett ¹	Pension Lump sum	0.5 1.5	N/a		10	N/a	7	11.4
Phil Lambert ¹	Pension Lump sum	0.5 1.5	N/a		9	N/a	6	11.4
Hazel Parker-Brown ¹	Pension Lump sum	0.5 1.4	N/a		12	N/a	9	11.4
Richard Collins OBE (to 30 September 2008)	Pension Lump sum	14.0 41.9	Pension Lump sum	1.0 2.9	260	207	14	17.1
David Godfrey (to 5 December 2008)	Pension Lump sum	5.3 15.9	Pension Lump sum	1.0 3.1	104	76	16	22.8
Crispin Passmore (18 August 2008 to 31 December 2008)	Pension Lump Sum	18.5 55.5	Pension Lump sum	1.2 3.6	273	242	12	12.1
Mike Jeacock (to 30 April 2008)	Pension Lump sum	8.6 25.7	Pension Lump sum	0.4 1.3	177	168	8	2.9
Helen Riley (to 31 December 2008)	Pension Lump sum	3.9 11.9	Pension Lump sum	1.1 3.4	70	45	14	25.7

Notes

1 Phil Lambert and Hugh Barrett joined the scheme on 1 December 2008, Hazel Parker-Brown joined on 3 December 2008.

2 Gary Robertson and Rod Clark are not members of the LSC pension scheme, therefore their pension costs are not disclosed in the table above.

A one-off payment of £6m towards the pension shortfall made during 2008/09 has not been allocated against senior employees. Employer contribution is at the rate of 18.6% with an additional 10.5% paid this year towards the pension shortfall.

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Remuneration report (continued)

Cash Equivalent Transfer Value (CETV)

A CETV is the actuarially assessed capitalised value of a member's pension scheme benefits at a particular point in time. The benefits valued are the member's accrued benefits and include, where applicable, the spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme that secures pension benefits in another pension scheme when the member leaves the scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to benefits accrued for total membership of the pension scheme, not just in a senior capacity, and include the value of any pension benefit in another scheme, which has been transferred to the Commission's pension scheme. CETVs are calculated within

the guidelines and framework prescribed by the Institute and Faculty of Actuaries. The CETV value for employees who left within the year 2008/09 was calculated up to their leaving date (instead of 31 March 2009).

Real increase in CETV

Real increase reflects the increase in CETV effectively funded by the employer (excluding the effect of fluctuations in the transfer value due to factors beyond the control of the Commission, such as investment market movements). It does not include the increase in accrued pension in line with inflation or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Table C: Non-executive Commissioners' remuneration (for year ending 31 March 2009)

Commissioner (date appointed)	Date current term commenced	Unexpired years in current term	Remuneration 2009	Full year equivalent salary and allowances		Expenses 2009 ¹	Total 2009	Total 2008
				2009	2009			
			£000	£000	£000	£000	£000	
Sir Bill Callaghan (member from 28 July and Chair from 1 September 2008)	28 July 2008	2.3	33.6	54.0	0.7	34.3	N/a	
Sir Michael Bichard (Chair until 31 August 2008)	N/a	N/a	30.4	73.0	N/a	30.4	72	
Angus Andrew (from 1 March 2004)	1 March 2007	1.9	23.6	N/a	0.7	24.3	25	
David Edmonds CBE (from 1 March 2004 until 30 June 2008)	N/a	N/a	7.9	31.4	0.9	8.8	31	
Barry Elliott (from 1 June 2007)	1 June 2007	2.2	23.9	N/a	2.9	26.8	18	
Tina Fahm (from 1 November 2004)	1 November 2007	2.6	31.4	N/a	3.8	35.2	34	
Carolyn Hamilton (from 1 April 2008)	1 April 2008	3.0	10.7	N/a	0.4	11.1	N/a	

Notes

1 Commissioner travel expenses vary according to the geographical location, the role and the time commitment of the individual Commissioner.

Remuneration report (continued)

Table C: Non-executive Commissioners' remuneration (for year ending 31 March 2009)

Commissioner (date appointed)	Date current term commenced	Unexpired years in current term	Remuneration 2009	Full year equivalent salary and allowances 2009	Expenses 2009 ¹	Total 2009	Total 2008
							£000
Jane Hickman (from 1 June 2007)	1 June 2007	1.2	16.1	N/a	N/a	16.1	13
Tom Jones OBE (from 1 March 2004)	1 March 2008	2.9	31.4	N/a	14.9	46.3	46
Lionel Joyce OBE (from 1 July 2005)	1 July 2008	2.3	31.4	N/a	11.4	42.8	40
Julian Lee (from 1 November 2008)	1 November 2008	2.6	4.4	10.7	0.5	4.9	N/a
Beryl Seaman CBE JP (from 1 July 2005)	1 July 2008	2.3	31.4	N/a	12.7	44.1	44
Peter Smith (from 1 April 2008)	1 April 2008	3.0	10.7	N/a	1.4	12.1	N/a
Dr David Wolfe (from 1 October 2005)	1 October 2008	3.5	10.7	N/a	0.1	10.8	16

Notes

1 Commissioner travel expenses vary according to the geographical location, the role and the time commitment of the individual Commissioner.

Signed for and on behalf of the Legal Services Commission**Carolyn Regan**

Chief Executive and Accounting Officer

20 October 2009

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Statement on internal control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Legal Services Commission's (LSC) policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

As Accounting Officer for the LSC, I am responsible and accountable to the Chair of the LSC who is accountable to the Lord Chancellor and Secretary of State for Justice for the running, management, performance and future development of the LSC. The Chair of the LSC and I regularly engage with the Permanent Secretary of the Ministry of Justice (MoJ), the Legal Aid Minister and the Lord Chancellor and Secretary of State for Justice and escalate risk management issues where appropriate.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the LSC for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

As Accounting Officer, I have overall responsibility for the operational management of risk and the system of internal control at the LSC. I am supported by the Commission, which currently comprises of 12 non-executive members. The Commission considers the

management of risk at a strategic level. An Audit Committee, consisting of three Commissioners and attended by LSC officials and representatives from the MoJ and the National Audit Office, regularly reviews the effectiveness of the LSC's risk management and internal control processes. The LSC reports monthly to the MoJ on the management of risk and key LSC risks are incorporated into the MoJ's overarching risk register as necessary.

I designate responsibility for each corporate risk to a member of the Executive Team with the Executive Director for Corporate Services taking overall responsibility for risk management. Her role includes the promotion of effective risk management across the organisation, with the aim of ensuring that it becomes an integral part of everything we do. A risk-based approach underpins the decisions made by the Commission and the Executive Team.

All LSC staff have a responsibility to consider risk as part of their job and in the current year we have built risk management into managers' performance frameworks. The LSC's *Risk Management Strategy* is available to all staff on the LSC's intranet and is based on guidance developed by the MoJ.

During the last year the LSC's Risk Manager communicated the *Risk Management Strategy* at workshops, meetings with business unit heads and project managers, and more widely through staff events and intranet articles. Supporting guidance has been developed for areas requiring improvement.

The risk and control framework

A risk and control framework is in place to identify, monitor, manage and report the risks or threats to the achievement of the LSC's corporate and business objectives. Risks are identified, evaluated and controlled across all levels of the organisation in the following ways:

- At a strategic level: the Commission and Audit Committee regularly review the LSC's corporate risks and provide strategic input into the LSC's risk register

Statement on internal control (*continued*)

- At senior executive level: the Executive Team consider and approve the corporate risk register quarterly. The Executive Team meet with the LSC's Risk Manager each month to review the risks under their ownership and decide the actions necessary to address them
- At director level: the Senior Management Team, which consists of all directors, consider risk management monthly. The Risk Management Committee meets regularly with senior managers to ensure that risks are being properly controlled
- All directors are required to sign a personal assurance statement which provides a framework for assurance that key systems and policies are operating effectively and identifies any significant control issues. In the current year I am simplifying and strengthening this process
- Through internal audit: reporting to the Audit Committee, the internal audit team conducts an annual risk-based programme of audits
- At project management level: project managers are required to maintain a project risk register which is reviewed regularly by the Risk Manager and relevant project board. When necessary, key risks are escalated to the Change Programme Board, which I chair and which oversees the transformation of legal aid services
- In business units: all business units have local risk registers in place as part of the LSC's business planning process. These are reviewed regularly by the Risk Manager and escalated when necessary
- All staff: the LSC's management processes aim to strengthen the quality of how we set performance objectives for those responsible for managing risk within the LSC
- The LSC has a system of delegated authority to control expenditure, and processes for the prevention, detection and reporting of fraud.

Risk management is embedded in the activity of the LSC through:

- A corporate risk register that incorporates all of the LSC's recognised risks and controls
- A *Risk Management Strategy* with a Risk Manager responsible for developing the LSC's risk management framework and ensuring consistency across the organisation
- The use of risk registers in the business planning process

- Policies, procedures and controls over procurement, finance, IT, information security, project management and human resources
- Consultations on new policies with the public and other key stakeholders, accompanied by impact assessments to review the effect of policies on the whole justice system.

Information assurance

We are working on a number of activities to address information assurance actions arising from a gap analysis and risk assessment against ISO 27001 (conducted by Deloitte) and recommendations made by our internal auditors. One of the activities planned is to carry out the first annual risk assessment against our information assets in February 2010.

To embed information assurance in the LSC we have:

- Encrypted all laptops
- Created an information asset register
- Appointed an LSC executive lead for information assurance, who is the Senior Information Risk Officer, and Information Asset Owners
- Implemented policies to support information assurance
- Developed an online training and awareness course for completion by 85% of staff by September 2009
- Published an *Information Charter* to clarify for the public why we hold personal information on them and how we look after it
- Continued to work towards full MoJ Security Policy Framework compliance.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the managers within the LSC who have responsibility for the development and maintenance of the internal control framework and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Commission, the Audit Committee, and the Risk Management Committee. A plan to address

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Statement on internal control (*continued*)

weaknesses and ensure continuous improvement of the system is in place.

The processes that have been applied by the Commission, the Audit Committee and the Risk Management Committee in maintaining and reviewing the system of internal control are set out earlier in this document.

Significant internal control issues

During the year I have identified the follow control weaknesses:

- The controls over the accuracy of providers' claims for Civil Legal Help, including immigration and family
- The controls over the means assessment of the eligibility of applicants for civil representation
- The robustness of the accounting systems, processes and controls which has impacted on the timeliness and quality of financial information and reporting
- The limited electronic integration between operational and accounting systems.

I am fully committed to resolving all these issues and have put in place the following actions:

- A strengthening of controls over providers' claims during the current year by increasing the scope of the provider audit and creating a new centre of excellence dedicated to this work
- A more extensive programme of on-site audits of providers
- A review of controls within operational systems with a clear timetable for delivering improvements
- The development of management information systems to enable the accurate and timely reporting of claims made by providers, which will help us to take prompt corrective action as necessary
- Strengthening leadership of the finance function, charged with reviewing and improving the end-to-end processes and systems and building financial management skills within the LSC
- In addition, I have jointly commissioned with the MoJ an independent review of the fund forecasting and accounting arrangements. I will establish, in consultation with the MoJ, a clear timetable for the implementation of the resultant recommendations.

LSC Online

In my 2007/08 statement on internal control I noted significant control issues relating to LSC Online (described in the 2007/08 report as the Supplier Management System).

LSC Online, an IT system designed to support a number of top priority projects and business initiatives, was launched in early November 2007. Although it operated well with low levels of users, problems arose as the user base increased and the system was therefore withdrawn for external users. Since August 2008 we have relaunched LSC Online to specific groups of providers on a phased basis.

Through a continuous programme of information gathering, data checking, communications and training, the LSC ensured that providers were prepared and supported so that they were able to submit their monthly claims successfully via LSC Online. The final group of eligible providers successfully joined LSC Online in March 2009, providing access online for over 5,800 providers' offices. The system has been performing well and feedback has been positive.

Signed for and on behalf of the Legal Services Commission

Carolyn Regan

Chief Executive and Accounting Officer
20 October 2009

A statement of the responsibilities of the Accounting Officer of the Commission

Under paragraph 16 (1) of Schedule 1 to the Access to Justice Act 1999, the Secretary of State for Justice has directed the Legal Services Commission (LSC) to prepare, for each financial year, accounts for the Community Legal Service (CLS) Fund and the Criminal Defence Service (CDS) as well as the administration of the LSC detailing the resources acquired, held or disposed of during the year and the use of resources by the LSC during the year. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the LSC and of its net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the LSC 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, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- Make judgements and estimates on a reasonable basis
- State whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts
- Prepare the accounts on a going concern basis.

The Accounting Officer of the Ministry of Justice has designated the LSC's Chief Executive as principal Accounting Officer of the LSC.

The responsibilities of the Chief Executive as Accounting Officer, include 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 the Treasury's *NDPB Accounting Officer Memorandum*, issued by the Treasury and published in *Managing Public Money*.

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Certificate 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's Community Legal Service Fund and Criminal Defence Service for the year ended 31 March 2009 under the Access to Justice Act 1999. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses 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

The Commission and Chief Executive as Accounting Officer are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of the Treasury and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Responsibilities of the Accounting Officer and of the Commission.

My responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Access to Justice Act 1999 and directions made there under by the Secretary of State and the Lord Chancellor with the approval of the Treasury. I report to you whether, in my opinion, the information, which comprises the Management Commentary, included in the Annual Report is consistent with the financial statements. I also report whether in all

material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Commission has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Commission's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Commission's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the sections headed "Legal aid fair access to justice", "Year in focus", "Our performance", the unaudited part of the Remuneration Report and the Chair and Chief Executive's review. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Commission and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Commission's circumstances, consistently applied and adequately disclosed.

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of the Treasury, of the state of Community Legal Service Fund and Criminal Defence Service's affairs as at 31 March 2009 and of its deficit, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Access to Justice Act 1999 and directions made thereunder by the Secretary of State and the Lord Chancellor with the approval of Treasury; and
- information, which comprises the Management Commentary, included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

In the year to 31 March 2009, the Commission paid £2 billion of legal aid to solicitors, of which £24.7 million was overpaid. The overpayments relate either to solicitors' claims being paid at amounts higher than that supported by evidence or where legal aid had been provided to claimants whose eligibility could not be demonstrated. Such overpayments were, by definition, not in accordance with regulations made under the Access to Justice Act 1999, and accordingly I have concluded that this expenditure has not been applied to the purposes

intended by Parliament and is not in conformity with the authorities which govern it.

In my opinion, except for the level of incorrect and unsupported legal aid expenditure referred to above, in all material respects, the expenditure and income have been applied to the purposes intended.

Details of these matters are set out in my accompanying report.

Amyas C E Morse
 Comptroller and Auditor General
 National Audit Office
 151 Buckingham Palace Road
 Victoria
 London SW1W 9SS
 October 2009

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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 2009

Introduction

1. The Legal Services Commission (the Commission) is an executive non-departmental public body of the Ministry of Justice. The Commission is 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).

The purpose of my report

2. The purpose of this Report is to explain the background to the qualification of my audit opinion on the Community Legal Service Fund and Criminal Defence Service accounts for the year ended 31 March 2009 in respect of material error in payments to solicitors. I also outline the steps the Commission is taking to address the weaknesses in the system of control over the payments made to solicitors, in order to prevent a reoccurrence of these errors in the future.

My obligations as Auditor

3. Under the Access to Justice Act 1999, I am required to examine, certify and report on the Commission's accounts. I am required, under International Standards of Auditing (UK and Ireland) to obtain evidence to give reasonable assurance that these accounts are free from material misstatement. In forming my opinion I examine, on a test basis, evidence supporting the disclosures in the financial statements and assess the significant estimates and judgements made in preparing them. I also consider whether the accounting policies are appropriate, consistently applied and adequately disclosed.

Audit Opinion

Qualified audit opinion due to material error in payments to solicitors

4. As part of my audit of the accounts, I am required to satisfy myself that the expenditure and income shown in the accounts have been applied to the purposes intended by Parliament and conform to the authorities that govern them; that is, they are "regular". In determining whether expenditure and income conform to the authorities that govern them, I have regard to the legislation authorising the financial transactions and relevant regulations issued under the governing legislation.
5. I have qualified my opinion on the Legal Services Commission's accounts for the year ended 31 March 2009 as I identified material errors in respect of payments made to solicitors. In order to support my regularity opinion, I needed to assure myself that the amounts paid to solicitors were in line with the legislation governing the fee regimes and that the Commission approved legal aid only to eligible applicants. My testing identified an estimated total overpayment error of £24.7 million in the Commission's accounts for 2008/09. The overpayments relate either to solicitors' claims being paid at amounts higher than that supported by evidence or where legal aid had been provided to applicants whose eligibility could not be demonstrated. This error represents 1.2 per cent of the Commission's expenditure during the year.

Legal Aid payments to solicitors

6. During 2008/09, the Commission incurred operating expenditure of £2,091 million. Legal aid for criminal cases through the Criminal Defence Service, covering work at the police station and Magistrates' Court (Crime Lower) and at the Crown Court (Crime Higher), totalled £1,176 million. Legal aid for civil cases through

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

the Community Legal Service- which covers Legal Help (advice on civil matters) and Civil Representation (representation of clients at the County Court and Family Court) - totalled £915 million.

7. The Commission contracts solicitors to provide advice and representation to eligible applicants through a number of legal aid schemes. The way in which the Commission pays the solicitors varies depending on the scheme but is based on the claims the solicitors submit for work done on each case. The provision of legal aid through some schemes is subject to an eligibility assessment of a client's financial means. The means assessments are completed by different parties, dependent on the scheme, as set out below.

Community Legal Service	Criminal Defence Service
1. Legal Help <i>Means tested by the solicitor</i>	1. Crime Lower: Police Station <i>Not means tested</i>
2. Civil Representation <i>Means tested by the Commission</i>	2. Crime Lower: Magistrates' Court <i>Means tested by the Court</i>
	3. Crime Higher: Crown Court <i>Not means tested</i>

8. In order to confirm that amounts paid to solicitors were in line with the relevant legislation, I tested the accuracy of a sample of claims for each scheme. In order to ensure that legal aid was only provided to eligible applicants I placed reliance on the work of the Commission's own assurance teams. I identified an error rate for each exercise and extrapolated this across each population to calculate an estimated total error for the Commission's accounts.
9. The estimated total error in the Commission's accounts for 2008/09 is an overstatement of expenditure of £24.7 million. The majority of this error (£18.3 million, 74 per cent) relates to overpayments made to solicitors across both the civil and criminal schemes. The remaining error of £6.4 million (26 per cent) relates to payments made to solicitors where legal aid had been provided to claimants whose eligibility could not be demonstrated. The majority of errors relate to expenditure through the Community Legal Service (£16.8 million), with the expenditure through the Criminal Defence Service accounting for approximately a third of the estimated total error (£7.9 million).
10. I set out in the following paragraphs further details of the overpayment and eligibility errors identified during the audit of the 2008/09 accounts.

Overpayment errors

11. During my audit I have estimated £18.3 million of overpayments to solicitors as set out in the following table:

Estimated error on accuracy of payments				
Legal Aid Scheme	Population £'m	Financial errors £	Error rate %	Estimated Error £'m
Legal Help: Immigration & Family	130.2	6,514	8.06%	10.5
Crime Lower: Police station & Magistrates' Court claims	478.5	356	0.74%	3.6
Legal Help: Other	106.4	449	2.12%	2.3
Crime Higher: Crown Court payments to advocates	277.7	1,310	0.61%	1.7
Crime Higher: Very High Cost Cases (VHCC) payments	108.0	2,933	0.30%	0.3
Civil Representation	804.7	(11)	(0.01%)	(0.1)
Total of Accuracy Errors		11,551		18.3

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12. I have outlined below further details of the most significant errors – on Legal Help, Crime Lower and the Crown Court. I also report on the Commission's own assurance mechanisms over the payment of solicitors through these schemes; the extent of my own testing, and the type and incidence of errors identified.

Legal Help and Crime Lower

13. For Legal Help and Crime Lower, the Commission pays solicitors through various fixed and standard fee schemes, with rates largely determined by the category of work. Solicitors input their claims in respect of work undertaken into the Commission's LSC Online system¹, which currently has limited data validation controls in operation. The claims determine the standard monthly payments that suppliers will receive from the Commission. These claims are not validated by the Commission before monthly payments are processed. Instead, throughout the year, the Commission's Contract Compliance Audit (CCA) team reviews a sample of claims, confirming that the suppliers have discharged their contractual requirements, including whether the file supports the fee claimed. This is the Commission's only direct mechanism to confirm the accuracy of individual claims submitted by solicitors.

14. During 2008/09, the Commission deployed a large team of 80 staff on this assurance work, each of whom spent a limited proportion of their time on the work (estimated as equivalent of 12 full time members of staff). The team selected a random sample of solicitors and chose 20 case files from each solicitor to review. Following this review, the Commission concluded that, for a number of cases, the claims were in respect of applicants ineligible for legal aid or outside of contractual requirements.

15. The Commission's policy is to tolerate up to two unsupported files in a sample of 20, although it ignores any partial errors in claims. Where there are more than two unsupported files in the sample, the Commission seeks to recoup the value of the claim from the solicitor and may undertake further testing of the solicitor's files. The Commission may also consider the application of a contract sanction if it considers the solicitor's level of non-compliance to be particularly serious, rather than due to an

administrative error. The Commission issued 14 notices of contract breaches to providers during 2008-09 and a further 11 to date during 2009-10.

16. I planned my audit to take assurance from the Commission's own review of 7,845 solicitor case files selected across 455 solicitors. However, my reperformance of a sample of the case file reviews identified that not all claim errors had been identified by the Commission's auditors. As a result, I was not able to rely on the Commission's work and so undertook additional testing of a sample of 450 claims in order to test their accuracy.

17. My additional work indicates that within the Legal Help and Crime Lower expenditure streams there are net over claim errors of £16.3 million. This calculation is a prudent one; it includes cases where I found insufficient evidence to support fees or disbursements claimed by solicitors as well as demonstrable errors.

18. I found the highest level of financial error (eight percent) was in relation to Family and Immigration claims within Legal Help; my testing here indicated that 25 percent of all claims were incorrect or unsupported. For many of these errors, the solicitor had claimed an incorrect category or level of work and the majority of such errors resulted in over claims. For example, I identified a number of instances where the solicitor had incorrectly claimed an asylum fee instead of the correct (and lower) immigration fee. Another major source of error related to inaccuracies around the claiming of VAT.

19. The Commission recognises there are a number of factors contributing to this significant level of over claims. This includes the complexity of the fee regimes, the lack of system-enforced controls in LSC Online to validate the accuracy of the claims when submitted, and the quality of the Commission's post-payment internal assurance processes. This, together with the limited sanctions in place for incorrect claims, creates a risk of suppliers exploiting the payment system.

Crown Court Payments

20. The Commission pays advocates for work in the Crown Courts through the Advocates Graduated Fee Scheme. The fees are determined by the facts of the

¹ LSC Online was introduced in 2007/08 in phases and has been fully operational since March 2009. The system allows solicitors to submit electronic claims to the Commission.

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

case, such as advocate category, type of case, number of witnesses and number of pages of prosecution evidence. These claims are validated by Her Majesty's Court Service (HMCS) prior to payment. The work undertaken by HMCS is governed by a Service Level Agreement with the Commission. While the claims are not subject to review by the Commission, the Service Level Agreement provides for the Ministry of Justice's Internal Audit service to undertake an audit at the request of the Commission.

21. I undertook testing at a number of Crown Courts to confirm the accuracy of payments made to advocates. This testing identified a total net overpayment error of £1,310, which related to actual errors and claims which were not supported by sufficient appropriate audit evidence. When extrapolated, this indicates an estimated net overpayment of £1.7 million. Recoveries of over payments made to advocates are dealt with by HMCS under the Service Level Agreement using powers set out in Article 26 of the Criminal Defence services Funding Order.

Eligibility

22. I have identified an estimated £6.4 million of payments to solicitors for legal aid provided to ineligible clients. I have set out below the details of the most significant errors – on Legal Help, Crime Lower and Civil Representation. I also report on the Commission's own assurance mechanisms over the payment of solicitors through these schemes; the extent of my own testing; and the type and prevalence of errors identified.

Estimated error on eligibility			
Legal Aid Scheme	Population £'m	Financial errors £	Estimated Error £'m
Legal Help	236.6	178	2.3
Crime Lower: Magistrates' Court	184.2	23,036	2.3
Civil Representation	286	10,064	1.6
CLS Direct	3.2	999	0.2
Total of Eligibility Errors		34,277	6.4

Legal Help

23. Before solicitors provide initial advice to clients on a civil matter, the solicitor must complete a means assessment of the client's financial eligibility for legal aid.
24. The Contract Compliance Audit (CCA) testing conducted by the Commission includes testing claims to confirm client eligibility for the receipt of legal aid. However, the CCA results identified a high number of potentially ineligible clients due to solicitors not always retaining sufficient evidence to support their assessment of a client's eligibility. The Commission agreed to conduct an additional file review exercise to specifically test client eligibility using alternative sources of evidence. Having satisfied myself of the scope and quality of this work, I placed reliance on the Commission's work in this area for the external audit of the accounts.
25. The results from this separate exercise identified an estimated error of £2.3m, which indicates the Commission may have paid this amount to solicitors for advice provided to individuals who were not eligible for legal aid.

Crime Lower: Magistrates' Court

26. The Criminal Defence Act 2006 introduced means-testing for the representation of clients in the Magistrates' Court from October 2006 onwards. The means assessment of the applicant's financial eligibility for legal aid is completed by the Magistrates' Court where the client's case is being heard.
27. Due to the limited evidence of client eligibility provided by the solicitors and maintained by the Courts, in 2008/09 the Commission undertook a separate exercise to confirm the eligibility of clients to alternative sources of evidence. This is the Commission's assurance mechanism for confirming the eligibility of recipients for criminal legal aid, which is led by its National Courts Team. Having satisfied myself of the scope and quality of this work, I placed reliance on the results of the Commission's work in this area.
28. The work of the National Courts Team identified an estimated net over claim in 2008/09 of £2.3 million (1.2% of the population of £184 million). This indicates that the Commission may have paid out this amount to solicitors for representation in Court of individuals who may not have been eligible for legal

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aid. This is a prudent error calculation; it includes cases where there was insufficient evidence of eligibility as well as proven cases of ineligibility.

Civil Representation

29. When the Commission provides legal aid to clients under the Civil Representation scheme, the clients may be required to make a contribution towards the costs of the case. The means assessment and calculation of any contributions to be paid by the client were completed by individual assessors within the Commission's regional offices. The Commission introduced a cross-office quality review to validate the assessments made on a sample of approved applications. Having satisfied myself of the scope and quality of the work undertaken by the regional offices, I placed reliance on the results of the Commission's work in this area.

30. The Commission's review identified errors where either an individual was ineligible for legal aid, or where the amount of contribution had been incorrectly calculated. The results indicate an estimated overpayment error of £1.6 million. The Commission's policy is to adjust the amount of contribution where this was incorrectly calculated or to revoke certificates if legal aid has been granted to ineligible applicants.

Actions taken or proposed to be taken by the Commission to address the weaknesses in the system of control

Accuracy of payments for Legal Help and Crime Lower

31. The most significant issue for the Commission is the high level of error in the accuracy of solicitor claims for work provided through the Legal Help and Crime Lower legal aid schemes. The Commission considers that the errors stem primarily from the complexity of the fee regime; the lack of controls within LSC Online to validate the claims and the quality of the CCA work to identify incorrect claims. In my view, the absence of a strict sanctions regime to deter the submission of incorrect claims by suppliers may also have contributed to the incidence of error.

32. The Commission has recognised the need to address a number of the key weaknesses causing this high level of error and is taking action in three key areas: solicitor engagement, enhancing LSC Online data validation

controls and bolstering the Commission's compliance and assurance work.

33. The Commission will also review the guidance provided to solicitors with regard to what fees they should be claiming and how claims are input onto LSC Online. Given the level of errors identified within my testing, in particular on family and immigration claims, I recommend the Commission reviews the structure of the fee regime and consider whether there is scope for simplification.

34. The Commission is already undertaking work to review the functionality of its controls within LSC Online to improve the data validation over claims submitted by solicitors. Enhanced input controls could prevent, for example, a firm of solicitors working outside London from claiming rates specific to work in London.

35. The Commission has established a dedicated team of 12 staff to conduct its Contract Compliance Audits from 2009/10 onwards. This should assist in enhancing the quality of the audit work done and consistency of judgements made. It has also committed to reviewing the guidance and training provided to its auditors to ensure that they identify and document all errors. The Commission also plans to extend the quality control checking of the results of the audit team's work to confirm that the CCA process is identifying all errors and treating them consistently.

36. I welcome the Commission's proposed actions and the setting of clear timelines and agreed accountabilities for these actions. I will be revisiting these issues as part of my audit of the Commission's 2009/10 financial statements.

37. I recommend that the Commission revisits the policies in relation to recovering over claims from its suppliers, in particular the element of the policy which ignores partial errors in amounts claimed. The Commission should also review its use of sanctions against suppliers as a matter of urgency to ensure that these act as a necessary deterrent to solicitors from claiming inappropriate fees.

Accuracy of Crown Court payments

38. The Report highlights potential risks of significant overpayments which may be caused by errors or a lack of supporting documentation. The Commission has a Service Level Agreement with HMCS to oversee

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

the payments of advocates for work in the Crown Courts. Under this agreement, HMCS is responsible for validating the claims. Given the level of error in these claims, the Commission should liaise with HMCS to consider how to ensure the controls operated by the Courts are more robust and identify errors in claims prior to payment. HMCS and the Commission are working together to address these issues. At present there are periodic joint internal audit reviews by HMCS and the Commission to assess the degree of compliance with the terms of the Service Level Agreements. The Commission needs to ensure that it secures sufficient, regular assurance on the operation of the Agreement to be able to confirm the accuracy and validity of claims paid via the Courts.

Eligibility

39. Since the Commission introduced means-testing in the Magistrates' Court in October 2006, its National Courts Team has undertaken profiling work in relation to the eligibility of applicants. The Team has developed this process throughout 2007/08 and 2008/09 to collate detailed information about the categories of applicants granted and refused legal aid; the value of legal aid provided to ineligible applicants, and where claimant eligibility is not fully supported. This has helped to focus the Team's assurance work and to address the factors contributing to these errors.
40. The Commission faces a further challenge with the introduction of means assessment in Crown Courts planned for the latter part of 2009/10. It will need to carefully consider the controls to be established to confirm and provide assurance over client eligibility to support this initiative.
41. At present the Commission undertakes limited analysis of the results of its eligibility assessment of applicants receiving legal aid for Legal Help. While the CCA team considers the results for each solicitor and identifies whether recoupment or further training is needed, the results are not considered collectively to identify trends across all solicitors and different categories of applicant. This is also the case for cross-office eligibility testing of civil representation work.
42. I recommend that the Commission undertake profiling work across all areas of means-tested legal aid to identify categories of applicants deemed to be at greater risk of ineligibility and to quantify the value of legal aid granted to ineligible applicants, or where claimant eligibility is not fully supported. The Commission should communicate these results to all parties undertaking the means assessment. Where appropriate, the Commission should also ensure that suitable sanctions are imposed on solicitors for failing to comply with the Commission's means testing criteria.
43. I will be assessing how the Commission has tackled the issues raised in my report as part of my audit of the Commission's financial statements for 2009/10.
44. I have undertaken a separate examination, under section 6 of the National Audit Act 1983 and to be presented to Parliament under section 9 of that Act, into the Commission's Procurement of Criminal Legal Aid. I will be reporting the results of this examination shortly.

Amyas C E Morse

Comptroller & Auditor General

National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

October 2009

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Community Legal Service Fund and Criminal Defence Service
Income and expenditure account

For the year ended 31 March 2009

		2009	2009	2009	2008	Restated 2008	2008
	Note	CLS	CDS	Total	CLS	CDS	Total
		£000	£000	£000	£000	£000	£000
Operating income	2	195,904	1,547	197,451	220,864	1,378	222,242
Operating expenditure	3	(914,710)	(1,176,336)	(2,091,046)	(703,359)	(1,157,107)	(1,860,466)
Operating deficit	5	(718,806)	(1,174,789)	(1,893,595)	(482,495)	(1,155,729)	(1,638,224)
Interest receivable and similar income	6	11,468	-	11,468	14,763	-	14,763
Interest paid	6	(150)	-	(150)	(197)	-	(197)
Other finance costs	7	-	(7)	(7)	-	(19)	(19)
Cost of capital charge	1 f)	11,531	18,525	30,056	21,749	19,255	41,004
Deficit for the year		(695,957)	(1,156,271)	(1,852,228)	(446,180)	(1,136,493)	(1,582,673)
Reversal of cost of capital charge	1 f)	(11,531)	(18,525)	(30,056)	(21,749)	(19,255)	(41,004)
Retained deficit for the year	13	(707,488)	(1,174,796)	(1,882,284)	(467,929)	(1,155,748)	(1,623,677)

All income and expenditure are derived from continuing operations.

Comparatives have been restated as detailed in note 6.

Statement of recognised gains and losses

For the year ended 31 March 2009

		2009	2009	2009	2008	2008	2008
	Note	CLS	CDS	Total	CLS	CDS	Total
		£000	£000	£000	£000	£000	£000
Prior year adjustment	1 n)	1,267	3,134	4,401	-	-	-
Gains recognised since last annual report		1,267	3,134	4,401	-	-	-

Adoption of FRS 26 as detailed in note 1 n) has been accounted for as a prior year adjustment and resulted in a gain of £4.4m.

The notes on pages 57 to 72 form part of these financial statements.

Community Legal Service Fund and Criminal Defence Service Balance sheet

For the year ended 31 March 2009

	Note	2009 CLS £000	2009 CDS £000	2009 Total £000	2008 CLS £000	Restated 2008 CDS £000	2008 Total £000
Fixed assets	4	12	123	135	22	226	248
Current assets							
Debtors	9	212,316	6,787	219,103	221,839	5,973	227,812
Cash at bank and in hand	8	2,924	1,972	4,896	3,031	1,007	4,038
		215,240	8,759	223,999	224,870	6,980	231,850
Creditors: amounts falling due within one year							
Other creditors	11	(50,586)	(33,166)	(83,752)	(80,306)	(46,839)	(127,145)
Net current assets/ (liabilities)		164,654	(24,407)	140,247	144,564	(39,859)	104,705
Total assets less current liabilities		164,666	(24,284)	140,382	144,586	(39,633)	104,953
Provisions for liabilities and charges	12	(391,460)	(498,515)	(889,975)	(576,690)	(496,120)	(1,072,810)
		(226,794)	(522,799)	(749,593)	(432,104)	(535,753)	(967,857)
Capital and reserves							
Income and expenditure reserve	13	(226,794)	(522,799)	(749,593)	(432,104)	(535,753)	(967,857)
		(226,794)	(522,799)	(749,593)	(432,104)	(535,753)	(967,857)

Comparatives have been restated as detailed in note 1n).

Carolyn Regan

Chief Executive and Accounting Officer

20 October 2009

The notes on pages 57 to 72 form part of these financial statements.

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Community Legal Service Fund and Criminal Defence Service
Cash flow statement

For the year ended 31 March 2009

		2009	2009	2009	2008	Restated 2008	2008
	Note	CLS £000	CDS £000	Total £000	CLS £000	CDS £000	Total £000
Net cash outflow from operating activities	15	(918,382)	(1,186,784)	(2,105,166)	(851,643)	(1,178,942)	(2,030,585)
Financing - grants received	13	912,798	1,187,750	2,100,548	843,970	1,178,271	2,022,241
Fixed asset (additions)/disposals	4	-	(1)	(1)	1	-	1
Interest received	14	5,627	-	5,627	7,760	-	7,760
Interest surrendered	6	(150)	-	(150)	(197)	-	(197)
(Decrease)/increase in cash		(107)	965	858	(109)	(671)	(780)

Comparatives have been restated as detailed in note 6.

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements

For the year ended 31 March 2009

Note 1 - Statement of accounting policies

These financial statements are prepared in accordance with the Treasury's Government *Financial Reporting Manual* and applicable accounting standards. They are in a form as directed by the Secretary of State for Justice and Lord Chancellor with the approval of the Treasury. The financial statements are presented in sterling, rounded to the nearest thousand.

The following accounting policies have been applied consistently in dealing with items considered material in relation to the financial statements subject to a change in accounting policy detailed in note 1 i) and 1n) below.

a) Accounting convention

The accounts are prepared under the historical cost convention except that certain financial instruments have been stated at fair value. This complies with Treasury guidance. Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Companies Act and accounting standards issued by the Accounting Standards Board so far as those requirements are relevant. The accounts are also consistent, where appropriate, with generally accepted accounting practice in the United Kingdom (UK GAAP).

b) Tangible fixed assets

Fixed assets are carried at their valuation in use. Depreciated historical costs are used as a proxy for current value of non-property assets because the assets have short economic useful lives. Assets costing more than the prescribed capitalisation level of £1,000 (2008: £1,000) are treated as capital assets. Where an item costs less than the prescribed limit 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.

c) Depreciation

Except for assets under construction depreciation is provided on all fixed assets on a straight-line basis to

write off the cost of tangible fixed assets over their estimated useful lives as follows:

Fixtures and fittings	5 years
Furniture and equipment	3 to 5 years
Computer equipment	3 to 5 years

Assets under construction are not depreciated until they have been completed. On completion assets are transferred to their relevant category and depreciated over their estimated useful lives.

d) Income and expenditure

The Commission's income includes contributions receivable from funded clients. Where the costs incurred by the Commission in funding a case are recoverable from funded clients or others, these amounts are accounted for as income. These amounts may be recovered from funded clients from both awarded costs and, where applicable, damages. Grants received from third parties are also accounted for as income. 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, CDS Direct and Community Legal Advice and Other Projects. These staff costs are disclosed in note 2 to the accounts of the Legal Services Commission.

e) Grant receivable

Grant receivable for revenue purposes or for the acquisition of general fixed assets is accounted for as financing and credited directly to the income and expenditure reserve. Grant is received from the Ministry of Justice periodically throughout the year.

f) Cost of capital charge

As required by the Treasury, a charge is made to the income and expenditure account for the notional cost of

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

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

capital. The notional capital charge, which reflects the cost of financing capital employed, is calculated at 3.5% (2008: 3.5%) of average net assets employed during the year. In accordance with Treasury guidance the notional charge is reversed out of the income and expenditure account before determining the retained surplus or deficit for the year. As the Commission has net liabilities a negative charge applies.

g) Cash and cash equivalents

Cash and cash equivalents comprise bank and cash balances. All bank balances are held with commercial bodies.

h) Provisions

The Community Legal Service and Criminal Defence Service recognise their liability to pay for work completed at 31 March but not yet billed. The provision is based on the number of outstanding certificates, the elapsed time on each case and estimated average costs based on closed case data.

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 discounted at 2.2% (2008: 2.2%).

i) Debt impairment provision

The Commission has adopted FRS26 Financial Instruments: Recognition and Measurement (see note 1 n below). The Commission estimates debt impairment provision based on cash flow forecasts discounted at the Commission's cost of capital, currently 3.5% (2008: 3.5%).

j) Operating leases

The costs of operating leases are charged to the income and expenditure account as they fall due.

k) Accounting for value added tax

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

l) Deposit accounts for funded clients

Awards for damages to funded clients are initially payable to the Legal Services Commission. 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 funds held on behalf of third parties and as a consequence do not appear in these accounts.

The movement in third party funds is reported in note 22 to these accounts.

Awards for damages paid to the Commission attract interest after a qualifying period. Any excess of interest received in the deposit accounts over the amounts due on amounts held on deposit is accounted for in the financial statements of the Legal Services Commission as damages income.

m) Going concern

The Legal Services Commission is a statutory body established under the Access to Justice Act 1999. The Commission is charged with the responsibility for managing and accounting for the Community Legal Service Fund and the Criminal Defence Service both of which are legal aid schemes provided for under the Access to Justice Act 1999. The Commission takes the view that the going concern concept applies to those accounts which present the operations of the Community Legal Service Fund and the Criminal Defence Service as long as the provisions of the Access to Justice Act 1999 remain extant.

The future financing of the Commission's liabilities is met by grants from the Ministry of Justice voted on by Parliament annually under the relevant Appropriation Act. Parliament voted on the funding for 2009/10 on 18 June 2009.

n) Adoption of new Financial Reporting Standards (FRS)

As directed by the Treasury, in preparation for the introduction of International Financial Reporting Standards (IFRS) in 2009/10, the Commission adopted FRS 25 Financial Instruments: Disclosure and Presentation, FRS 26 Financial Instruments: Recognition and Measurement and FRS 29 Financial Instruments: Disclosures, in 2008/09. This has required a change in accounting treatment of debtor valuation and related provisions. In line with Treasury guidance all revaluations have been taken to reserves. The prior year results have been restated accordingly as follows:

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 1 - Statement of accounting policies** (*continued*)**Balance Sheet**

	CLS £000	CDS £000	Total £000
As previously reported at 31 March 2008	(433,371)	(538,887)	(972,258)
Net change to debtor valuation	1,267	3,134	4,401
at 31 March 2008 restated	(432,104)	(535,753)	(967,857)
Debtors - fair value adjustment	(52,823)	(742)	(53,565)
Adjustment to impairment provision	54,090	3,876	57,966
Net change to debtor valuation	1,267	3,134	4,401

The adjustment to the impairment provision is the net adjustment following the cancellation of the bad debt provision and the creation of the impairment provision.

Note 2 - Operating income

	2009 CLS £000	2009 CDS £000	2009 Total £000	2008 CLS £000	Restated 2008 CDS £000	2008 Total £000
Civil representation						
Contributions by funded clients	16,240	-	16,240	23,160	-	23,160
Costs recoverable	132,179	-	132,179	139,580	-	139,580
Recoveries from damages and statutory charge	47,427	-	47,427	56,903	-	56,903
	195,846	-	195,846	219,643	-	219,643
Civil Legal Help						
Grants and sundry income received from third parties	-	-	-	71	-	71
Costs recoverable	58	-	58	1,150	-	1,150
	58	-	58	1,221	-	1,221
Criminal cases						
Costs recoverable	-	116	116	-	65	65
Recovery of defence costs orders	-	1,431	1,431	-	1,313	1,313
	-	1,547	1,547	-	1,378	1,378
	195,904	1,547	197,451	220,864	1,378	222,242

Comparatives have been restated as explained in note 6.

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

Note 3 - Operating expenditure

	2009 CLS £000	2009 CDS £000	2009 Total £000	2008 CLS £000	2008 CDS £000	2008 Total £000
Civil representation						
Solicitors' charges, counsel fees and disbursements	803,141	-	803,141	769,976	-	769,976
Refund of contributions	4,387	-	4,387	4,887	-	4,887
Costs of successful unassisted parties	2,450	-	2,450	1,180	-	1,180
Miscellaneous	12	-	12	460	-	460
	809,990	-	809,990	776,503	-	776,503
Release of provision on dormant cases	(179,649)	-	(179,649)	(350,000)	-	(350,000)
	630,341	-	630,341	426,503	-	426,503
Civil Legal Help						
Solicitors' charges, counsel fees and disbursements	163,272	-	163,272	151,319	-	151,319
Direct services, grants and similar	24,990	-	24,990	24,566	-	24,566
	188,262	-	188,262	175,885	-	175,885
Immigration and asylum						
Solicitors' charges, counsel fees and disbursements	83,593	-	83,593	75,873	-	75,873
Public Immigration Legal Services	47	-	47	230	-	230
Direct services, grants and similar	1,940	-	1,940	1,721	-	1,721
	85,580	-	85,580	77,824	-	77,824
Criminal cases						
Solicitors' charges, counsel fees and disbursements - Crime Higher	-	677,417	677,417	-	675,704	675,704
Solicitors' charges, counsel fees and disbursements - Crime Lower	-	485,451	485,451	-	464,475	464,475
Public Defender Service	-	3,017	3,017	-	4,025	4,025
Duty solicitor call service	-	9,709	9,709	-	7,489	7,489
	-	1,175,594	1,175,594	-	1,151,693	1,151,693
Impairment provision (note 10)	10,527	742	11,269	23,147	5,414	28,561
	914,710	1,176,336	2,091,046	703,359	1,157,107	1,860,466

Figures for the Public Defender Service (PDS) and for the Public Immigration Legal Service (PILS) include the depreciation charge and loss on disposal for capital items. Note 4 shows the PDS and CLS fixed assets along with the amount provided for depreciation in the year.

Staff costs included within operating expenditure, together with the numbers employed are disclosed in note 2 of the accounts of the Legal Services Commission.

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 4 - Fixed assets****Community Legal Service**

	Furniture and equipment £000	Computer equipment £000	Total £000
Cost at 1 April 2008	12	38	50
Additions	-	-	-
Disposals	-	(6)	(6)
Cost at 31 March 2009	12	32	44
Depreciation at 1 April 2008	4	24	28
Charged in year	2	6	8
Disposals	-	(4)	(4)
Depreciation at 31 March 2009	6	26	32
Net book value at 31 March 2009	6	6	12
Net book value at 31 March 2008	8	14	22

Criminal Defence Service

	Fixtures and fittings £000	Furniture and equipment £000	Computer equipment £000	Total £000
Cost at 1 April 2008	934	117	352	1,403
Additions	-	-	1	1
Disposals	(49)	-	(92)	(141)
Cost at 31 March 2009	885	117	261	1,263
Depreciation at 1 April 2008	879	98	200	1,177
Charged in year	34	10	45	89
Disposals	(49)	-	(77)	(126)
Depreciation at 31 March 2009	864	108	168	1,140
Net book value at 31 March 2009	21	9	93	123
Net book value at 31 March 2008	55	19	152	226

All CDS assets relate to the Public Defender Service.

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

Note 5 - Operating deficit

	2009	2009	2009	2008	2008	2008
	CLS	CDS	Total	CLS	CDS	Total
	£000	£000	£000	£000	£000	£000
Operating deficit is stated after charging the following:						
Operating leases	-	257	257	-	336	336

The administration costs of the Community Legal Service Fund and of the Criminal Defence Service are funded by a separate grant-in-aid. The grant-in-aid and the revenue expenditure of the Commission for the administration of the Community Legal Service Fund and Criminal Defence Service, including charges for non-PDS leases and auditor's remuneration, are accounted for in the Legal Services Commission financial statements.

Note 6 - Interest

	2009	2009	2009	2008	Restated 2008	2008
	CLS	CDS	Total	CLS	CDS	Total
	£000	£000	£000	£000	£000	£000
Interest receivable						
Interest arising on statutory charges	11,468	-	11,468	14,763	-	14,763
Interest paid						
Interest surrendered to Legal Services Commission	(150)	-	(150)	(197)	-	(197)

As agreed with the MoJ excess deposit account interest is surrendered to the Legal Services Commission (see note 1). This was previously included in recoveries from damages and statutory charge. Where appropriate comparatives have been restated to reflect this charge.

Note 7 - Other finance costs

	2009	2009	2009	2008	2008	2008
	CLS	CDS	Total	CLS	CDS	Total
	£000	£000	£000	£000	£000	£000
Discount on provisions	-	7	7	-	19	19

Note 8 - Analysis of net debt

	CLS	CDS	Total
	£000	£000	£000
Cash at bank and in hand			
At 1 April 2008	3,031	1,007	4,038
Cash flows	(107)	965	858
At 31 March 2009	2,924	1,972	4,896

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 9 - Debtors**

	2009 CLS £000	2009 CDS £000	2009 Total £000	2008 CLS £000	Restated 2008 CDS £000	2008 Total £000
Contributions due from funded clients	26,507	-	26,507	26,391	-	26,391
Costs to be recovered	13,878	-	13,878	16,566	-	16,566
Statutory charge	199,538	-	199,538	214,466	-	214,466
Damages	23,494	-	23,494	12,281	-	12,281
Amounts due from service providers	69,306	6,418	75,724	82,644	5,608	88,252
Recovery of defence costs orders	-	5,437	5,437	-	4,826	4,826
	332,723	11,855	344,578	352,348	10,434	362,782
Impairment provision (note 10)	(120,407)	(5,068)	(125,475)	(130,509)	(4,461)	(134,970)
	212,316	6,787	219,103	221,839	5,973	227,812

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. Simple interest of 12% was introduced in the year ended 31 March 1991 and was reduced to 10.5% with effect from 1 January 1992 and further reduced to 8% from 1 September 1993. With effect from 1 April 2002 to 30 September 2005 the interest rate was set annually by reference to the Bank of England's official rate at the time. Under the Community Legal Service (Financial) Regulations 2000 as amended by the Community Legal Service (Financial) (Amendment) Regulations 2005 the interest rate was set at 8% from 1 October 2005. A table of applicable Bank and interest rates is below.

	Bank of England rate	Interest rate
1 April 2002	4.00%	5.00%
1 April 2003	3.75%	5.00%
1 April 2004	4.00%	5.00%
1 April 2005 to 30 September 2005	4.75%	5.00%
1 October 2005	n/a	8.00%

The gross amounts secured by a charge against property were:

	2009 CLS £000	2009 CDS £000	2009 Total £000	2008 CLS £000	Restated 2008 CDS £000	2008 Total £000
Statutory charge on damages	158,212	-	158,212	178,981	-	178,981
Accrued interest to date	41,326	-	41,326	35,485	-	35,485
	199,538	-	199,538	214,466	-	214,466

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Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 9 - Debtors** (*continued*)

Debts secured by a charge may be deferred until the property has been sold. Most of the debts are most likely to be paid after one year however it is not possible to state what value is due for repayment in more than one year.

There are no debts due from other central government bodies or other public sector bodies to disclose.

Debtors have been restated as set out in note 1 n).

Note 10 - Debt impairment provision

				Restated		
	2009	2009	2009	2008	2008	2008
	CLS	CDS	Total	CLS	CDS	Total
	£000	£000	£000	£000	£000	£000
At 1 April 2008	130,509	4,461	134,970	176,209	3,013	179,222
Debts written off	(20,629)	(135)	(20,764)	(14,757)	(90)	(14,847)
Charge to income and expenditure account	10,527	742	11,269	23,147	5,414	28,561
Prior year adjustment (note 1n))	-	-	-	(54,090)	(3,876)	(57,966)
At 31 March 2009	120,407	5,068	125,475	130,509	4,461	134,970

Comparatives have been restated as set out in note 1n).

Note 11 - Creditors

	2009	2009	2009	2008	2008	2008
	CLS	CDS	Total	CLS	CDS	Total
	£000	£000	£000	£000	£000	£000
Amounts falling due within one year						
Other creditors						
Amounts due to solicitors, counsel and advice agencies	46,616	33,109	79,725	79,322	46,458	125,780
Contribution refunds due to funded clients	991	-	991	-	-	-
Amounts due to the Legal Services Commission	662	57	719	157	381	538
Accruals and deferred income	2,317	-	2,317	827	-	827
	50,586	33,166	83,752	80,306	46,839	127,145
Amounts due to central government bodies						
Other central government bodies	662	57	719	157	381	538
Bodies external to government	49,924	33,109	83,033	80,149	46,458	126,607
	50,586	33,166	83,752	80,306	46,839	127,145

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 12 - Provisions for liabilities and charges**

	CLS £000	CDS £000	Total £000
Provision for amounts outstanding on funded cases			
At 1 April 2008	576,621	495,496	1,072,117
Additions and increases to provision	1,050,006	1,162,868	2,212,874
Amounts used in the period	(1,055,518)	(1,160,339)	(2,215,857)
Unused amounts reversed in the period	(179,649)	-	(179,649)
At 31 March 2009	391,460	498,025	889,485
Provision for dilapidations			
At 1 April 2008	-	346	346
Additions and increases to provision	-	-	-
Amounts used in the period	-	-	-
Unused amounts reversed in the period	-	(25)	(25)
Finance charges	-	7	7
At 31 March 2009	-	328	328
Provision for onerous contracts			
At 1 April 2008	69	278	347
Additions and increases to provision	47	30	77
Amounts used in the period	(116)	(146)	(262)
Unused amounts reversed in the period	-	-	-
At 31 March 2009	-	162	162
At 31 March 2009	391,460	498,515	889,975
At 31 March 2008	576,690	496,120	1,072,810

The Legal Services 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 balance sheet date following the requirements of FRS 12 *Provisions, contingent liabilities and contingent assets*.

In estimating the provision, the Commission has adopted prudent measurement techniques based on the latest data available. Improved data capture techniques have been utilised in the Commission's estimate for the current year.

No income is anticipated for cases that may successfully recover costs.

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

Note 12 - 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 2009 and 2019 as the leases expire.

Where the Commission has offices that it no longer operates from but is tied into a rental agreement a provision is made for the full future costs of those agreements for the shortfall in rent if no alternative occupier can be identified.

Note 13 - Income and expenditure reserve

	CLS £000	CDS £000	Total £000
At 1 April 2008	(433,371)	(538,887)	(972,258)
Prior Year Adjustment (note 1n)	1,267	3,134	4,401
Retained deficit for the year	(707,488)	(1,174,796)	(1,882,284)
Grants received	912,798	1,187,750	2,100,548
At 31 March 2009	(226,794)	(522,799)	(749,593)

Note 14 - Financial investment

	2009 CLS £000	2009 CDS £000	2009 Total £000	2008 CLS £000	2008 CDS £000	2008 Total £000
Interest received	5,627	-	5,627	7,760	-	7,760

Note 15 - Reconciliation of operating deficit to net operating cash flows

	2009 CLS £000	2009 CDS £000	2009 Total £000	2008 CLS £000	Restated 2008 CDS £000	2008 Total £000
Operating deficit	(718,806)	(1,174,789)	(1,893,595)	(482,495)	(1,155,729)	(1,638,224)
Depreciation charges and profit and loss on disposals	10	104	114	8	252	260
Decrease/(increase) in debtors	15,364	(814)	14,550	(1,191)	(374)	(1,565)
(Decrease)/increase in creditors	(29,720)	(13,673)	(43,393)	(3,485)	29,673	26,188
(Decrease)/increase in provisions	(185,230)	2,388	(182,842)	(364,480)	(52,764)	(417,244)
Net cash outflow from operating activities	(918,382)	(1,186,784)	(2,105,166)	(851,643)	(1,178,942)	(2,030,585)

Comparatives have been restated as detailed in note 6.

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 16 - Going concern**

The balance sheet at 31 March 2009 shows an excess of liabilities over assets of £750m.

The Chief Executive knows of no review of the Commission's operations, other than that disclosed in note 24, or intention to suspend its activities or merge it with other bodies. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Note 17 - Financial commitments

A provision is made for amounts outstanding on funded cases at the balance sheet date. The Commission recognises that there is a continuing obligation to fund cases past the balance sheet date but the amount of the liability is dependent on the future outcome of each case. It is estimated that this liability is in the order of £889m (31 March 2008: £1,072m).

Note 18 - Contingent liability

The Commission is currently in discussions with HM Revenue and Customs in order to determine whether any corporation tax liability results from its activities. Whether there is a liability and how this should be calculated will depend on the outcome of these discussions.

Note 19 - Commitments under operating leases

The Commission has annual commitments under non-cancellable operating leases as follows:

	2009	2009	2009	2008	2008	2008
	CLS	CDS	Total	CLS	CDS	Total
	£000	£000	£000	£000	£000	£000
Operating leases which expire:						
Within one year - land and buildings	-	41	41	-	-	-
Within one year - other	-	5	5	-	4	4
Between two and five years - land and buildings	-	57	57	-	51	51
Between two and five years - other	-	8	8	-	16	16
Over five years - land and buildings	-	79	79	-	252	252
	-	190	190	-	323	323

Operating leases shown in this note relate to the PDS.

Note 20 - Related party transactions

The Legal Services Commission is a non-departmental public body sponsored by the Ministry of Justice. The Ministry of Justice is regarded as a related party. During the year, the Commission had various material transactions with the Ministry of Justice. The Commission has also had various material transactions with Her Majesty's Courts Service, an agency of the Ministry of Justice, relating to work provided by the Courts Service on behalf of the Commission.

The Commission has declared below any immediate connection between the Community Legal Service Fund or the Criminal Defence Service and Ministry of Justice ministers or their close family, or the organisations with which the ministers

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

Note 20 - Related party transactions (*continued*)

or their close family are associated. During 2008/09, the Commission entered into a number of material transactions with some Commissioners, other related parties or their close family members. These transactions are also detailed below.

Unless otherwise stated, the disclosures relate to transactions in respect of funded work and do not reflect an 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 period 1 April 2008 to 31 March 2009 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 might 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 2008/09 but not yet billed.

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 on the Commission. Members may not participate in Commission discussions or decisions on policy or financial matters where a conflict of interest arises.

Ministry of Justice ministers and related parties

Jack Straw	Adam Straw is a barrister who receives payments in respect of legal aid casework. Adam Straw is the nephew of Jack Straw, the Lord Chancellor and Secretary of State for Justice.	£27,225
Shahid Malik (from October 2008)	Khan solicitors is a legal services contracted firm of solicitors in which Sundus Malik is a trainee solicitor. Sundus Malik is married to Shahid Malik, Parliamentary Under Secretary of State.	£766,387 4 October 2008 to 31 March 2009

Commissioners and related parties

Carolyn Hamilton	(1) The Children's Legal Centre is a legal services contracted not-for-profit organisation of which Commissioner Carolyn Hamilton is a Director.	£377,504
	(2) Carolyn Hamilton is a barrister who receives payments in respect of legal aid casework.	£8,728
Jane Hickman	Hickman and Rose is a legal services contracted firm of solicitors in which Jane Hickman is Managing Partner.	£1,396,812
Tom Jones OBE	Geldards LLP is a legal services contracted firm of solicitors. Tom Jones' son Owain Jones is a trainee lawyer at Geldards LLP.	£36,717
Dr David Wolfe	David Wolfe is a barrister who receives payments in respect of legal aid casework.	£108,084

Chief Executive and related parties

Carolyn Regan	Darbys solicitors LLP is a legal services contracted firm of solicitors in which, from March 2009, Andrew Regan is a solicitor. Andrew Regan is Carolyn Regan's brother.	£188,868 March 2009 only
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Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 21 - Financial instruments****a) Carrying amount and fair values of financial assets and liabilities**

Debtors have been discounted over the period from the balance sheet 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 that involves discounting all debtor balances over periods commensurate with historical cash flow patterns for each class of debt at a rate of 3.5% per annum (2008: 3.5% p.a.). The discount rate used is the cost of capital rate issued by the Treasury. The estimation technique used assumes that the timing of future cashflows will follow historical trends. Departures from these trends will result in changes to fair value but it is not possible to quantify this effect. In all cases, the carrying value of debtors is equal to their fair value.

All other assets and liabilities have been accounted for at historical cost which due to the nature of these assets and liabilities is not materially different from fair value. Differences in the fair value of debtors arising from the application of this model over the financial year will be recognised within income.

b) 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.

The CLS Fund and CDS is exposed to the following financial risks from its use of financial instruments:

- liquidity risk
- credit risk
- interest rate risk

Liquidity risk

The Commission is financed by a grant received from the Ministry of Justice. As such it is not exposed to significant liquidity risks.

Interest rate risk

Interest rate risk comprises two primary elements:

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

The commission is not exposed to significant interest price risk or interest cash flow risk. At 31 March 2009 £99.3m (2008: £106.3m) of statutory charge debt was secured by land that charge carried a fixed rate of interest. Changes in floating interest rates do not affect the fair value of this debt.

Floating rate assets comprise interest bearing bank balances where interest rates move in relation to official market rates.

Money received by the Community Legal Service Fund 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, £18.8m 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.

Sensitivity analysis

The fair value of land charge debt is deemed not to be directly affected by future interest rate changes. As such the fair value of land charge debt is unchanged by future interest rate changes. Future interest rate changes have no other impact on income or expenditure.

No impact is recorded in respect of changes in discount rates applied to financial instruments to record them at present value or employee benefits (including pensions). Staff costs included in operating expenditure are disclosed in note 2 of the accounts of the Legal Services Commission.

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

Note 21 - Financial Instruments (*continued*)

Foreign currency risk

The Commission presents its accounts in sterling. The Commission 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.

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 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 09. The Commission considers its maximum exposure to credit risk to be:

	2009 £000	2008 £000
Credit risk		
Cash at bank and in hand	4,896	4,038
Debtors	219,103	227,812
	223,999	231,850
Third party assets	20,287	29,600
	244,286	261,450

Cash balances are with strong investment grade banks or financial institutions.

As at 31 March 09 there were no financial guarantees or third party obligations other than amounts held as damages on deposit, that increased the credit risk of the financial assets set out above.

Though the Commission has seen no direct evidence of changes to the credit risk of its counterparties the current economic condition has increased financial volatility.

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

Debtors

The majority of the Commissions debt (£199.5m out of a total exposure of £344.6m before impairment) is the result of a statutory charge and a high proportion of this is secured on property. The risk of non payment of this debt is low. Other debts carry a significant impairment provision.

The Commission provides for impairment of financial assets based on known events and makes a collective provision for losses yet to be identified, based on historic data. The majority of the provision is estimated based on historic events.

Cash

Banks are selected for their credit status and their ability to meet the Commission's day-to-day banking requirements. The credit ratings are monitored on a continuing basis. The Commission 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.

Borrowing facilities

The Commission is not empowered to borrow money.

Community Legal Service Fund and Criminal Defence Service Notes to the financial statements (*continued*)**Note 22 - Third party assets**

The Commission holds awards for damages on behalf of funded clients as explained in note 1 l).

	31 March 2008 £000	Gross inflows £000	Gross outflows £000	31 March 2009 £000
Third party assets	29,600	3,846	(13,159)	20,287

The Commission receives awarded damages awaiting the final settlement of a case. The assets held at the balance sheet date comprise pooled investment funds and cash and building society deposits as follows:

	31 March 2009 £000	31 March 2008 £000
Cash	1,450	848
Building Society deposits	4,790	10,415
Pooled investment funds	14,047	18,337
	20,287	29,600

Note 23 - Accountability notes**Losses statement**

There were 7,343 (2008: 5,849) cases involving losses totalling £20.8m (2008: £14.8m). In accordance with *Managing Public Money* losses over £250,000 are separately disclosed. There were four supplier balances written off over £250,000. The balances were £259,569, £282,137, £385,547 and £512,174. The suppliers are now either bankrupt or cannot be traced by the Commission. The debts arose from the normal course of business and represent payments on account for which claims or bills have not been submitted. There were two funded client balances written off over £250,000 the balances being £762,111 and £466,282. The funded client cases related to revoked cases that are now statute barred.

Under the terms of the Unified Contract agreed with the Law Society in April 2008, in respect of historic cases as defined in the contract, providers can opt to accept payments on account (POA) as the final bill without providing further documentation. As there is no supporting documentation these payments are deemed to be a loss to the Commission. All of these payments on account have been accounted for in prior year accounts. The total payments on account opted as final bills under the agreement was £24m. Before the Unified Contract the Commission would have expected a proportion of these POAs to be repaid. No case started after April 2002 is affected by this agreement. The commission estimates that approximately 50% of the cases expected to be closed through the unified contract agreement have been processed at 31 March 2009.

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

Note 24 - Post balance sheet events

In accordance with the requirements of FRS 21, post balance sheet events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

There are no post balance sheet events to report.

On the 13 October 2009 the Ministry of Justice announced a review into the delivery of legal aid.

The review is to ensure that the money spent on legal aid every year is delivering best value for money, providing a healthy and sustainable future for social welfare law and effectively integrating the criminal defence service with the criminal justice system.

To conduct the review, the government has invited Sir Ian Magee to assess the delivery and governance arrangements of the legal aid system. Sir Ian Magee will report back to government in January 2010.

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 2009 under the Access to Justice Act 1999. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses 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

The Commission and Chief Executive as Accounting Officer are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Access to Justice Act 1999 and directions made there under by the Secretary of State and Lord Chancellor with the approval of HM Treasury and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of the Responsibilities of the Accounting Officer and of the Commission.

My responsibility is to audit the financial statements and the part of the remuneration report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Access to Justice Act 1999 and directions made there under by the Secretary of State and Lord Chancellor with the approval of HM Treasury. I report to you whether, in my opinion, the information, which comprises the Management Commentary, included in the Annual Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes

intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Commission has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects Commission's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Commission's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the sections headed "Legal aid fair access to justice", "Year in focus", "Our Performance", the unaudited part of the Remuneration Report and the Chair and Chief Executive's review. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Commission and Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Commission's circumstances, consistently applied and adequately disclosed.

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Amyas Morse
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS
October 2009

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Access to Justice Act 1999 and directions made there under by the Secretary of State and Lord Chancellor with the approval of HM Treasury, of the state of Commission's affairs as at 31 March 2009 and of its deficit, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Access to Justice Act 1999 and directions made there under by the Secretary of State and Lord Chancellor with the approval of HM Treasury; and
- information, which comprises the Management Commentary, included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

Legal Services Commission Income and expenditure account

For the year ended 31 March 2009

	Note	2009 £000	2,008 £000
Other operating income	11	99	257
Employment costs	2, 3	(68,199)	(62,131)
Depreciation	5	(3,665)	(2,938)
Other operating charges	6	(52,807)	(51,381)
Operating deficit	7	(124,572)	(116,193)
Interest receivable and similar income	8	1,036	1,649
Interest payable and similar charges	9	(886)	(1,427)
Other finance costs	10	2	587
Non operating income	11	-	1,920
Cost of capital charge	1 f)	(268)	250
Deficit for the year		(124,688)	(113,214)
Reversal of cost of capital charge	1 f)	268	(250)
Retained deficit for the year	16	(124,420)	(113,464)

All operations are continuing.

The notes on pages 79 to 97 form part of these financial statements.

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Legal Services Commission
Statement of recognised gains and losses

For the year ended 31 March 2009

	Note	2009 £000	2008 £000
Actuarial (loss)/gain recognised in the pension scheme	3, 16	(3,534)	12,451
Recognised losses and gains for the financial year		(3,534)	12,451

The notes on pages 79 to 97 form part of these financial statements.

Legal Services Commission Balance sheet

At 31 March 2009

	Note	2009 £000	2008 £000
Fixed assets	5	15,848	10,943
Current assets			
Debtors	14	3,148	3,937
Cash at bank and in hand	13	12,055	5,997
		15,203	9,934
Creditors: amounts falling due within one year	15	(14,757)	(7,935)
Net current assets		446	1,999
Total assets less current liabilities		16,294	12,942
Provision for liabilities and charges	20	(3,024)	(4,023)
Net assets excluding pension liability		13,270	8,919
Pension liability	3	(5,333)	(1,568)
Net assets including pension liability		7,937	7,351
Capital and reserves			
Income and expenditure reserve	16	7,937	7,351
		7,937	7,351

Carolyn Regan

Chief Executive and Accounting Officer

20 October 2009

The notes on pages 79 to 97 form part of these financial statements.

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Legal Services Commission
Cash flow statement

For the year ended 31 March 2009

	Note	2009 £000	2008 £000
Net cash outflow from operating activities	12	(114,486)	(129,245)
Non operating income	12	-	1,920
Returns on investments and servicing of finance	12	150	222
Capital expenditure	12	(8,146)	(5,429)
Financing - grant-in-aid capital	16	8,615	5,429
Financing - grant-in-aid revenue	16	119,925	124,567
Increase/(decrease) in cash	13	6,058	(2,536)

The notes on pages 79 to 97 form part of these financial statements.

Legal Services Commission

Notes to the financial statements

For the year ended 31 March 2009

Note 1 - Statement of accounting policies

These financial statements are prepared in accordance with the Treasury's *Government Financial Reporting Manual* and applicable accounting standards. They are in a form as directed by the Secretary of State for Justice and Lord Chancellor with the approval of the Treasury subject to a change in accounting policy detailed in note 1n) below. The financial statements are presented in sterling, rounded to the nearest thousand.

a) Accounting convention

The accounts are prepared under the historical cost convention. The impact of revaluing the Commissions fixed assets using modified historical cost accounting was found to be immaterial, therefore modified historical cost accounting has not been adopted. This complies with Treasury guidance. Without limiting the information given, the accounts meet the accounting and disclosure requirements of the Companies Act and accounting standards issued by the Accounting Standards Board so far as those requirements are relevant. The accounts are also consistent, where appropriate, with generally accepted accounting practice in the United Kingdom (UK GAAP).

b) Tangible fixed assets

Tangible fixed assets are carried at their valuation in use. Depreciated historical costs are used as a proxy for current value of non-property assets because the assets have short economic useful lives. Assets costing more than the prescribed capitalisation level of £1,000 (2008: £1,000) are treated as capital assets. Where an item costs less than the prescribed limit 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. Assets purchased and brought into service within the same year are disclosed as additions. Where an asset under construction is brought forward from a prior year and brought in to serve in the current year, it is then disclosed as a transfer from assets under construction.

c) Depreciation

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

Fixtures and fittings	5 years
Furniture and equipment	3 to 5 years
Computer equipment	3 to 5 years

Assets under construction are not depreciated until they have been completed. On completion assets are transferred to their relevant category and depreciated over their estimated useful lives.

d) Other operating income

Other operating income comprises receipts authorised by the Ministry of Justice to be treated as income.

e) Grant-in-aid

Grant-in-aid receivable for revenue purposes or for the acquisition of general fixed assets is accounted for as financing and credited directly to the income and expenditure reserve.

f) Financing charges

Costs of capital

As required by the Treasury, a charge is made to the income and expenditure account for the notional cost of capital. The notional capital charge, which reflects the cost of financing capital employed, is calculated at 3.5% (2008: 3.5%) of average net assets employed during the year. In accordance with Treasury guidance the notional charge is reversed out of the income and expenditure account before determining the retained surplus or deficit for the year.

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

Interest

The Commission also receives interest on bank balances and on third party deposit accounts for funded clients. Bank interest is paid over to the Ministry of Justice; excess interest on deposit accounts for funded clients is retained as agreed with the Ministry of Justice. The receipts and payments are shown in 'interest receivable and similar income' and 'interest payable and similar charges' respectively in the income and expenditure account.

g) Operating leases

The costs of operating leases are charged to the income and expenditure account as they fall due.

h) Leased assets

The Commission does not currently hold any assets under finance leases.

i) Provisions

A provision is recognised when an obligation (whether legal or constructive) arises as a result of a past event, and when it is probable that a transfer of economic benefit will be required to settle the obligation and that it can be reliably estimated.

j) Cash & cash equivalents

Cash and cash equivalents comprise bank and cash balances. All bank balances are held with commercial bodies.

k) Accounting for value added tax

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

l) 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 the passage of time are included under 'other finance costs' in the income and expenditure account. Actuarial gains and losses are recognised in the statement of recognised gains and losses.

m) Going concern

The Legal Services Commission is a statutory body established under the Access to Justice Act 1999. The Commission is charged with the responsibility for managing and accounting for the Community Legal Service Fund and the Criminal Defence Service both of which are legal aid schemes provided for under the Access to Justice Act 1999. The Commission takes the view that the going concern concept applies as long as the provisions of the Access to Justice Act 1999 remain extant.

The future financing of the Commission's activities is met by grant-in-aid from the Ministry of Justice voted by Parliament annually under the relevant Appropriation Act. Parliament voted on the funding for 2009/10 on the 18 June 2009.

n) Adoption of new Financial Reporting Standards (FRS)

As directed by the Treasury, in preparation for the introduction of International Financial Reporting Standards (IFRS) in 2009/10, the Commission adopted FRS 25 Financial Instruments: Disclosure and Presentation, FRS 26 Financial Instruments: Recognition and Measurement and FRS 29 Financial Instruments: Disclosures, in 2008/09. This has required a change in accounting treatment of debtor valuation and related provisions. All debtors existing at 31 March 2009 are repayable within one year. The book value on these debtors are valued to be the same as the fair value and there have been no adjustments due to the adoption of these standards.

Legal Services Commission Notes to the financial statements (continued)

Note 2 - Employment costs

	Permanently employed staff £000	Other £000	2009 £000	Permanently employed staff £000	Other £000	2008 £000
Aggregate payroll costs were as follows:						
Salaries and wages	44,327	7,569	51,896	42,971	5,328	48,299
Social security costs	3,782	238	4,020	3,834	220	4,054
Other pension costs	9,467	-	9,467	8,399	-	8,399
	57,576	7,807	65,383	55,204	5,548	60,752
Less recoveries in respect of outward secondments	(76)	-	(76)	(122)	-	(122)
Redundancy	2,518	-	2,518	1,119	-	1,119
	60,018	7,807	67,825	56,201	5,548	61,749
Commissioners' costs:						
Fees to non-executives	348	-	348	350	-	350
Social security costs	26	-	26	32	-	32
	374	-	374	382	-	382
	60,392	7,807	68,199	56,583	5,548	62,131

Other pension costs are the total operating charges relating to the pension schemes. Costs can be incurred by both permanent and non-permanent employees of the Commission.

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

Additional detail about the Executive Team and non-executive Commissioners' remuneration is included in the remuneration report.

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

	Permanently employed staff	Other	2009	Permanently employed staff	Other	2008
Change Programme	187	73	260	145	37	182
Service Delivery	1,046	150	1,196	1,055	161	1,216
Corporate Services	198	27	225	196	20	216
	1,431	250	1,681	1,396	218	1,614
Commissioners	9	-	9	10	-	10
	1,440	250	1,690	1,406	218	1,624

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Legal Services Commission Notes to the financial statements (continued)

Note 2 - Employment costs (continued)

Expenditure for the Public Defender Service (PDS) and Criminal Defence Service (CDS) Direct is recorded within the Criminal Defence Service accounts; expenditure of the Community Legal Advice team formerly Community Legal Service Direct, and Other Projects is included in the CLS accounts as part of direct services, grants and similar. To fully disclose the Commission's staff costs and numbers, a breakdown of the PDS, CDS Direct, Community Legal Advice and Other Projects staff costs is given below.

PDS and CDS Direct

	Permanently employed staff £000	Other £000	2009 £000	Permanently employed staff £000	Other £000	2008 £000
Aggregate payroll costs were as follows:						
Salaries and wages ¹	1,765	27	1,792	1,765	74	1,839
Social security costs	145	-	145	197	7	204
Other pension costs	268	-	268	396	-	396
	2,178	27	2,205	2,358	81	2,439
Less recoveries in respect of outward secondments	(39)	-	(39)	-	-	-
Redundancy	221	-	221	-	-	-
	2,360	27	2,387	2,358	81	2,439

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

	Permanently employed staff	Other	2009	Permanently employed staff	Other	2008
PDS	55	1	56	59	1	60
CDS Direct	1	1	2	1	1	2
	56	2	58	60	2	62

¹ PDS and CDS Direct, and CLS salaries and wages cost for 2008 have been restated to exclude pension costs.

Legal Services Commission Notes to the financial statements (*continued*)**Note 2 - Employment costs** (*continued*)**Community Legal Advice and Other Projects**

	Permanently employed staff £000	Other £000	2009 £000	Permanently employed staff £000	Other £000	2008 £000
Aggregate payroll costs were as follows:						
Salaries and wages ¹	1,080	166	1,246	817	152	969
Social security costs	87	-	87	79	-	79
Other pension costs	167	-	167	184	-	184
	1,334	166	1,500	1,080	152	1,232

The average number of full-time equivalent persons employed within the Community Legal Advice and Other Projects team during the year was as follows:

	Permanently employed staff	Other	2009	Permanently employed staff	Other	2008
Community Legal Advice and Other Projects	19	5	24	21	6	27

Note 3 - Pension costs

The Legal Services Commission operates two pension schemes, the No. 4 Scheme and the No. 3 Scheme, providing benefits based on final pensionable salary. The assets of the schemes are held separately from those of the Commission, being invested in funds managed by Legal & General Investment Management Limited. Contributions to the schemes are charged to the income and expenditure account so as to spread the cost of the pensions over employees' working lives with the Commission. The contributions are set by the Trustees having taken advice from the Schemes Actuary (Hymans Robertson LLP) on the basis of biennial valuations. The most recent formal valuations were as at 31 March 2008. The assumptions have been updated to ensure the valuation is in line with the requirements of FRS 17 for the current year disclosure.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the rate currently fixed at 3.0% p.a. (2008: 2.5%) in excess of expected future price inflation. Long dated AA rated corporate bonds have been used to set the discount rate this year. A degree of subjectivity was required to set the discount rate due to the varying spread of yields in the light of the current economic conditions.

¹ PDS and CDS Direct, and CLS salaries and wages cost for 2008 have been re-stated to exclude pension costs.

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Legal Services Commission Notes to the financial statements (*continued*)**Note 3 - Pension costs** (*continued*)**The Legal Services Commission Staff Pension and Assurance Scheme (No. 4)**

A full actuarial valuation of the Scheme was carried out at 31 March 2008 by qualified independent actuaries Hymans Robertson LLP.

The Commission made an advanced payment of £6m into the No 4 Scheme in 2009. Under the terms of this special contribution agreement, the Commission's contribution for the following year will be reduced. The Commission also paid £3.1m to the Scheme, to cover the cost of 16 benefit improvements under the terms of the early retirement and early severance scheme.

The Commission expects to contribute about £1.5m to this defined benefit pension scheme in the period to 31 March 2010.

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

A full actuarial valuation of the Scheme was carried out at 31 March 2008 by qualified independent actuaries Hymans Robertson LLP.

The Scheme is closed to new entrants and there are no active members. The Commission did not contribute to the scheme in the period 1 April 2008 to 31 March 2009 (2008: nil).

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

	No. 4 Scheme 2009	No. 3 Scheme 2009	No. 4 Scheme 2008	No. 3 Scheme 2008
Discount rate	6.50% p.a.	6.50% p.a.	6.00% p.a.	6.00% p.a.
Rate of increase in salaries	4.50% p.a.	n/a	5.00% p.a.	n/a
Deferred pension increases before retirement	3.50% p.a.	3.50% p.a.	3.50% p.a.	3.50% p.a.
Rate of increase in pensions in payment	3.50% p.a.	3.50% p.a.	3.50% p.a.	3.50% p.a.
Inflation assumption	3.50% p.a.	3.50% p.a.	3.50% p.a.	3.50% p.a.

Future life expectancies

The future life expectancies below are based on the 2009 post retirement mortality assumptions used for both schemes, namely standard actuarial tables 110% of PNMA00 for males and 110% of PNFA00 for females with an allowance for long cohort improvement (mortality rates are subject to a 1% underpin for annual improvements from 2008 onwards).

	Males Years 2009	Females Years 2009	Males Years 2008	Females Years 2008
Future life expectancy for a pensioner aged 60 at 31 March	27.7	30.4	29.1	32.6
Future life expectancy at age 60 for a non pensioner aged 45 at 31 March	29.4	31.9	30.8	34.3

Legal Services Commission Notes to the financial statements (*continued*)**Note 3 - Pension costs** (*continued*)

The expected rate of return and market values of the assets of the No. 4 Pension Scheme at 31 March 2009 were as follows:

	Expected long-term rate of return at 31 March 2009 %	Value at 31 March 2009 £000	Expected long-term rate of return at 31 March 2008 %	Value at 31 March 2008 £000
No. 4 Pension Scheme				
Market value of assets				
Equities	7.2%	92,139	7.5%	99,779
Gilts and cash	4.2%	78,183	4.5%	93,327
Insured pensioners	6.5%	9,937	6.0%	11,380
Total market value of assets		180,259		204,486
Actuarial value of liabilities		(185,592)		(206,054)
Deficit in the Scheme		(5,333)		(1,568)
Related deferred tax liability		n/a		n/a
Net pension liability		(5,333)		(1,568)

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

	Expected long-term rate of return 2009 %	Value at 31 March 2009 £000	Expected long-term rate of return 2008 %	Value at 31 March 2008 £000
No. 3 Pension Scheme				
Market value of assets				
Equities	7.2%	821	7.5%	986
Gilts and cash	4.2%	1,948	4.5%	2,273
Insured pensioners	6.5%	743	6.0%	599
Total market value of assets		3,512		3,858
Actuarial value of liabilities		(3,065)		(3,748)
Surplus in the Scheme		447		110
Irrecoverable Surplus *		(447)		(110)
Related deferred tax liability		n/a		n/a
Net pension liability		-		-

* The surplus on the scheme is only recoverable to the extent that the Legal Services Commission can benefit from either refunds formally agreed or future contribution reductions.

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Legal Services Commission Notes to the financial statements (*continued*)**Note 3 - Pension costs** (*continued*)

Pension scheme costs charged to operating costs include:

	No. 4 Scheme 2009 £000	No. 3 Scheme 2009 £000	No. 4 Scheme 2008 £000	No. 3 Scheme 2008 £000
Current service cost	6,915	-	7,489	-
Past service charge	2,552	-	910	-
LSC - Operating charge	9,467	-	8,399	-
CLS and PDS - Operating charge	436	-	580	-
	9,903	-	8,979	-

The CLS and PDS operating charge is recognised in the Community Legal Service Fund and Criminal Defence Service accounts.

Analysis of amounts charged to other finance income

	No. 4 Scheme 2009 £000	No. 3 Scheme 2009 £000	No. 4 Scheme 2008 £000	No. 3 Scheme 2008 £000
Expected return on Scheme assets	12,409	204	11,090	183
Interest on Scheme liabilities	(12,571)	(216)	(10,595)	(183)
Net return	(162)	(12)	495	-

Analysis of amount recognised in the statement of recognised gains and losses.

	No. 4 Scheme 2009 £000	No. 3 Scheme 2009 £000	No. 4 Scheme 2008 £000	No. 3 Scheme 2008 £000
Actual return less expected return on Scheme assets	(44,073)	(246)	(5,757)	(57)
Experience gains and losses arising on Scheme liabilities	4,619	113	-	-
Changes in assumptions underlying the present value of the Scheme liabilities	35,908	483	18,208	(113)
(Decrease)/increase in irrecoverable surplus	-	(338)	-	170
Actuarial (loss)/gain included in the statement of recognised gains and losses	(3,546)	12	12,451	-
Cumulative actuarial loss	(41,817)	(19)	(38,271)	(31)

Legal Services Commission Notes to the financial statements (continued)

Note 3 - Pension costs (continued)

Reconciliation of defined benefit obligation

	No. 4 Scheme 2009 £000	No. 3 Scheme 2009 £000	No. 4 Scheme 2008 £000	No. 3 Scheme 2008 £000
The movement in the liabilities during the year arose as follows:				
Liabilities at beginning of year	(206,054)	(3,748)	(206,500)	(3,782)
Current service cost - LSC	(6,915)	-	(7,489)	-
Current service cost - CLS and PDS	(436)	-	(580)	-
Interest cost	(12,571)	(216)	(10,595)	(183)
Benefits accrued in respect of contributions by plan participants	(2,578)	-	(2,483)	-
Actuarial gains/(losses)	40,527	596	18,208	(113)
Past service cost	(2,552)	-	(910)	-
Benefits paid	4,987	303	4,295	330
Liabilities at end of year	(185,592)	(3,065)	(206,054)	(3,748)

Reconciliation of fair value of plan assets

	No. 4 Scheme 2009 £000	No. 3 Scheme 2009 £000	No. 4 Scheme 2008 £000	No. 3 Scheme 2008 £000
The movement in the assets during the year arose as follows:				
Assets at beginning of year	204,486	3,858	177,492	4,062
Expected return on assets	12,409	204	11,090	183
Contributions by plan participants	2,578	-	2,483	-
Contributions by the Commission	9,846	-	23,473	-
Actuarial losses	(44,073)	(246)	(5,757)	(57)
Benefits paid	(4,987)	(303)	(4,295)	(330)
Assets at end of year	180,259	3,512	204,486	3,858

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Legal Services Commission Notes to the financial statements (*continued*)**Note 3 - Pension costs** (*continued*)

The No. 4 Pension Scheme history of experience gains and losses over the period 1 April 2005 to 31 March 2009 were as follows:

	No. 4 Scheme 2009 £000	No. 4 Scheme 2008 £000	No. 4 Scheme 2007 £000	No. 4 Scheme 2006 £000	No. 4 Scheme 2005 £000
Fair value of plan assets	180,259	204,486	177,492	155,354	118,708
Present value of defined benefit obligation	(185,592)	(206,054)	(206,500)	(165,687)	(145,049)
Deficit	(5,333)	(1,568)	(29,008)	(10,333)	(26,341)
Experience adjustments on scheme assets					
Amount	(44,073)	(5,757)	348	16,930	1,606
Percentage of Scheme assets	(24.4)%	(2.8)%	0.2%	10.9%	1.4%
Experience adjustments on scheme liabilities					
Amount	4,619	-	11,252	-	2,754
Percentage of present value of scheme liabilities	2.5%	-	5.4%	-	1.9%
Total actuarial gains/(losses) on obligation					
Amount	40,527	18,208	(27,248)	(8,960)	(18,077)
Percentage of present value of Scheme liabilities	21.8%	8.9%	(13.2)%	(5.4)%	(12.5)%

There was one early retirement (2008: one) on grounds of ill health.

Legal Services Commission Notes to the financial statements (continued)

Note 3 - Pension costs (continued)

The No. 3 Pension Scheme history of experience gains and losses over the period 1 April 2005 to 31 March 2009 were as follows:

	No. 3 Scheme 2009 £000	No. 3 Scheme 2008 £000	No. 3 Scheme 2007 £000	No. 3 Scheme 2006 £000	No. 3 Scheme 2005 £000
Fair value of plan assets	3,512	3,858	4,062	4,149	3,724
Present value of defined benefit obligation	(3,065)	(3,748)	(3,782)	(4,255)	(3,997)
Surplus/(deficit)	447	110	280	(106)	(273)
Experience adjustments on scheme assets					
Amount	(246)	(57)	(140)	408	(101)
Percentage of Scheme assets	(7.0)%	(1.5)%	(3.4)%	9.8%	(2.7)%
Experience adjustments on scheme liabilities					
Amount	113	-	643	-	891
Percentage of the present value of Scheme liabilities	3.7%	-	17.0%	-	22.3%
Total actuarial gains/(losses) on obligation					
Amount	596	(113)	345	(425)	585
Percentage of the present value of Scheme liabilities	19.4%	(3.0)%	9.1%	(10.0)%	14.6%

Liability and insured pension sensitivity at 31 March 2009 to changes in key assumptions

The table below shows the sensitivity of the liability and insured pensions for both schemes as at 31 March 2009 to changes in key assumptions. These figures have been calculated in a consistent manner to the rest of the figures in this note. The changes are considered in isolation.

Changes in assumptions	(Increase)/decrease 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 increases by 0.25% p.a.	9,900	71	(200)	(11)
Rate of pay escalation increases by 0.25% p.a.	(2,200)	No Change	No Change	No Change
Pension increases and deferred pension increases increase by 0.25% p.a.	(7,800)	(61)	No Change	No Change
Life expectancy at age 60 increases by 1 year	(5,200)	(158)	400	40

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Legal Services Commission Notes to the financial statements (*continued*)**Note 4 - Reconciliation of fixed asset additions to capital expenditure**

	2009	2008
	£000	£000
Payments to acquire fixed assets	8,146	5,429
Accruals	469	-
Fixed Asset additions	8,615	5,429

Note 5 - Fixed assets

Tangible assets	Assets under construction £000	Fixtures and fittings £000	Furniture and equipment £000	Computer equipment £000	Total £000
Cost at 1 April 2008	6,632	6,063	2,780	4,605	20,080
Additions	4,205	1,930	1,179	1,301	8,615
Disposals	-	(2,381)	(1,177)	(461)	(4,019)
Transfers	(8,698)	2,368	268	6,062	-
Cost at 31 March 2009	2,139	7,980	3,050	11,507	24,676
Depreciation at 1 April 2008	-	3,698	1,735	3,704	9,137
Charged in year	-	1,437	533	1,695	3,665
Disposals	-	(2,365)	(1,153)	(456)	(3,974)
Depreciation at 31 March 2009	-	2,770	1,115	4,943	8,828
Net book value at 31 March 2009	2,139	5,210	1,935	6,564	15,848
Net book value at 31 March 2008	6,632	2,365	1,045	901	10,943

Legal Services Commission Notes to the financial statements (continued)

Note 6 - Other operating charges

	2009	2008
	£000	£000
Rent, rates and insurance	7,066	6,721
Maintenance, heating, lighting and dilapidation charge	4,945	3,452
Office machinery expenditure and maintenance	1,959	2,015
Office supplies, printing and stationery	716	1,049
Publicity	365	327
Managed facility - outsourced contracts	2,589	1,778
Postage and telephone	3,072	2,526
File assessment and peer review	1,733	2,481
Legal and professional charges	4,908	4,499
Research and development	419	475
Contribution recovery costs	213	113
Audit fee	250	157
Computer contractors	2,245	2,713
Security service and contracts	512	1,073
Staff recruitment and development	817	1,332
Payroll contract	129	125
Travelling, subsistence and committee members' attendance fees	2,549	2,669
Conferences and courses	1,002	1,195
Land Registry charges	310	250
Ex gratia payments and other similar charges	35	95
HMCS service charge - Crime Higher	5,944	7,520
HMCS service charge - Transfer of Grant	10,985	8,810
Loss on disposal and write down of fixed assets	44	6
	52,807	51,381

The HMCS service charge is incurred under a service level agreement. The Legal Services Commission compensates HMCS for administrative costs incurred in providing legal aid services in the higher criminal courts and for means assessment work in the lower courts (Crime Higher and Transfer of Grant).

Ex gratia payments are amounts paid to individuals claiming that mistakes were made by the Commission in dealing with their cases. Further disclosure is found in note 24 to these accounts.

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Legal Services Commission Notes to the financial statements (*continued*)**Note 7 - Operating deficit**

	2009	2008
	£000	£000
Operating deficit is stated after charging the following:		
Operating leases	5,422	5,814
Auditor remuneration - current year	236	146
Auditor remuneration - prior year	14	11

Auditor remuneration for 2009 includes £19,000 of costs relating to the IFRS conversion of the Commission's 31 March 2008 balance sheet.

Note 8 - Interest receivable and similar income

	2009	2008
	£000	£000
Interest from CLS Fund and CDS	150	197
Other	886	1,452
Interest receivable and similar income	1,036	1,649

Note 9 - Interest payable and similar charges

	2009	2008
	£000	£000
Interest payable and similar charges	886	1,427

The interest payable and receivable figures for 2009 is inclusive of £871,418 of interest that was paid over to the Ministry of Justice.

Note 10 - Other finance costs

	2009	2008
	£000	£000
Discount on provisions (note 20)	(176)	(92)
Return on Pension Scheme No. 4 (note 3)	162	(495)
Return on Pension Scheme No. 3 (note 3)	12	-
	(2)	(587)

Legal Services Commission Notes to the financial statements (continued)

Note 11 - Income**Other operating income**

	2009	2008
	£000	£000
Other operating income	99	257

The income received in 2009 mainly relates to income from conferences. Operating income can also include grants from third parties and other miscellaneous receipts.

Non operating income

Statutory compensation of £1,920,000 was received by the Legal Services Commission in 2008, upon vacation of the Red Lion Street property under Section 37 of the 1954 Landlord & Tenants Act.

Note 12 - Gross cash flows

	2009	2008
	£000	£000
Reconciliation of operating deficit to net operating cash flows		
Operating deficit	(124,572)	(116,193)
Depreciation charges and loss on disposal	3,709	2,944
Decrease in debtors	789	526
Increase/(decrease) in creditors	6,353	(1,814)
Decrease in provisions	(823)	(214)
Other finance charges and pension payments	58	(14,494)
Net cash outflow from operating activities	(114,486)	(129,245)
Non operating income		
Receipt on termination of lease on property (note 11)	-	1,920
Returns on investment and servicing of finance		
Interest received	1,036	1,649
Interest paid	(886)	(1,427)
	150	222
Capital expenditure		
Payments to acquire tangible fixed assets (note 4)	(8,146)	(5,429)

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Legal Services Commission Notes to the financial statements (*continued*)**Note 13 - Analysis of changes in net funds**

	At 1 April 2008 £000	Cash flows £000	At 31 March 2009 £000
Cash at bank and in hand	5,997	6,058	12,055

Note 14 - Debtors

	2009 £000	2008 £000
Amounts falling due within one year		
Other debtors	341	201
Amounts due from CLS Fund and CDS	719	538
Prepayments and accrued income	2,088	3,198
	3,148	3,937
Amounts due from central government bodies		
Other central government bodies	719	538
Bodies external to government	2,429	3,399
	3,148	3,937

Note 15 - Creditors

	2009 £000	2008 £000
Amounts falling due within one year		
Other creditors	90	136
Amounts due to HMCS on the service level agreement - Crime Higher	2,184	176
Amounts due to HMCS on the service level agreement - Transfer of Grant	2,559	-
Other taxation and social security costs	1,450	1,374
Accruals and deferred income	8,474	6,249
	14,757	7,935
Amounts due to central government bodies		
Other central government bodies	4,743	176
Bodies external to government	10,014	7,759
	14,757	7,935

Legal Services Commission Notes to the financial statements (*continued*)**Note 16 - Income and expenditure reserve**

	Income and expenditure reserve £000
Balance as at 1 April 2008	7,351
Deficit for the financial year	(124,420)
Actuarial loss recognised	(3,534)
Grant-in-aid - capital	8,615
Grant-in-aid - revenue	119,925
Balance as at 31 March 2009	7,937

Note 17 - Going concern

The balance sheet at 31 March 2009 shows an excess of assets over liabilities of £7.94m.

The Chief Executive knows of no review of the Commission's operations, other than that disclosed in note 24, or intention to suspend its activities or merge it with other bodies. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

Note 18 - Capital commitments

There are commitments for capital expenditure of £69,439 (2008: £837,079) for which no provision has been made in these accounts.

Note 19 - Commitments under operating leases

	Land and buildings 2009 £000	Other 2009 £000	Total 2009 £000	Land and buildings 2008 £000	Other 2008 £000	Total 2008 £000
Annual commitments under operating leases expiring:						
Within one year	219	310	529	900	344	1,244
Between two and five years	502	27	529	414	67	481
Over five years	4,842	-	4,842	2,702	-	2,702
	5,563	337	5,900	4,016	411	4,427

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

Note 20 - Provision for liabilities and charges

	Restructuring £000	Dilapidations £000	Total £000
At 1 April 2008	741	3,282	4,023
Additions and increases to provision	80	2,118	2,198
Amounts used in the period	(353)	(1,960)	(2,313)
Unused amounts reversed in the period	(388)	(320)	(708)
Finance charges (note 10)	-	(176)	(176)
At 31 March 2009	80	2,944	3,024

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 discounted at 2.2% (2008: 2.2%). The costs are expected to be incurred between 2009 and 2019 as the leases expire. A dilapidation provision on vacated buildings is maintained until dilapidation negotiations have been finalised.

The restructuring provision relates to additional costs expected to be incurred as a result of the restructuring programme being undertaken by the Legal Services Commission.

Note 21 - Contingent liability

The Commission is currently in discussions with HM Revenue and Customs in order to determine whether any corporation tax liability results from its activities. Whether there is a liability and how this should be calculated will depend on the outcome of these discussions.

Note 22 - Related party transactions

The Legal Services Commission is a non-departmental public body sponsored by the Ministry of Justice. The Ministry of Justice is regarded as a related party. During the year the Legal Services Commission had various material transactions with the Ministry of Justice. The Commission has also had various material transactions with Her Majesty's Courts Service, an agency of the Ministry of Justice, relating to work provided by the Courts Service on behalf of the Commission.

During 2009 the Legal Services Commission entered into material transactions with the related party detailed below.

In March 2009, payments of £680,965 were made to CMS Cameron McKenna LLP, a law firm, in respect of a commercial property matter. This firm was acting for the landlords of the commercial property and not for the Legal Services Commission. Andrew Regan was a trainee solicitor at the firm until February 2009 and is the brother of Carolyn Regan, the Chief Executive of the Legal Services Commission.

Note 23 - Financial instruments

The Commission's asset and liabilities have been accounted for at historical cost which due to the nature of these assets is not materially different from fair value. Provisions have been discounted at a rate of 2.2%. The carrying value of provisions is equal to the fair value.

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.

The Commission is exposed to the following financial risks from its use of financial instruments:

Legal Services Commission Notes to the financial statements (*continued*)**Note 23 - Financial instruments** (*continued*)**Liquidity risk**

The Commission is financed by a grant received from the Ministry of Justice. 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 09. The Commission considers its maximum exposure to credit risk to be:

	2009	2008
	£000	£000
Cash at bank	12,055	5,997
Debtors	3,148	3,937
	15,203	9,934

Cash balances are with strong investment grade banks or financial institutions.

Though the Commission has seen no direct evidence of changes to the credit risk of its counterparties the current economic condition has increased financial volatility.

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

Interest rate risk

The Commission's bank balances carry floating interest rates, and the interest is paid over directly to the Ministry of Justice. All of the Commission's liabilities carry nil or fixed rates of interest and as such are not exposed to significant interest rate risk.

Foreign currency risk

The Commission presents its accounts in sterling. The Commission 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 - Accountability notes**Losses**

There were no known incidences of cash reported stolen in the year (2008: Nil).

One item of equipment totalling £800 was reported stolen in the year (2008: four items of equipment totalling £2,980).

There were no known incidents of fraud in the year (2008: Nil).

Special payments

Ex gratia payments are amounts paid to individuals claiming that mistakes were made by the Commission in dealing with their cases.

During the year there were 70 (2008: 100) ex gratia payments totalling £35,306 (2008: £94,844).

The Commission made no other special payments during the year (2008: 2 payments totalling £325,000). No single payment was above £250,000.

The Commission was ordered to pay costs of £98,158 in relation to a Judicial Review.

Note 25 - Post balance sheet events

In accordance with the requirements of FRS 21, post balance sheet events are considered up to the date on which accounts are authorised for issue, which is interpreted as the date of the Certificate and Report of the Comptroller & Auditor General.

There are no post balance sheet events to report.

On the 13 October 2009 the Ministry of Justice announced a review into the delivery of legal aid.

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

Note 25 - Post balance sheet events

(continued)

The review is to ensure that the money spent on legal aid every year is delivering best value for money, providing a healthy and sustainable future for social welfare law and effectively integrating the criminal defence service with the criminal justice system.

To conduct the review, the government has invited Sir Ian Magee to assess the delivery and governance arrangements of the legal aid system. Sir Ian Magee will report back to government in January 2010.

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