Presented pursuant to the GRA Act 2000 c.20. s.6

Lord Chancellor's Department

Resource Accounts 2002 - 03

(For the year ended 31 March 2003)

Ordered by the House of Commons to be printed
10 November 2003

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Annual Report

On 12 June 2003 the Government announced the creation of a new department, the Department for Constitutional Affairs. Further details of this new Department are included in the Operating and Financial Review and on its website (http://www.dca.gov.uk), and reference is made to it throughout this account. As the new Department for Constitutional Affairs has assumed most of the responsibilities of the former Lord Chancellor's Department it has been deemed appropriate to prepare this account on a going concern basis.

This account refers to the former Lord Chancellor's Department when discussing activities and events prior to 12 June 2003. It recognises that the Lord Chancellor's Department no longer exists and that its aims and objectives, together with the focus of its principal activities, are no longer current. It seeks to provide sufficient information to meet the historical reporting requirements of the Lord Chancellor's Department, together with the emerging direction of the new Department.

The Department for Constitutional Affairs therefore presents the accounts of the Lord Chancellor's Department for the financial year ended 31 March 2003.

Aims and objectives of the Department

The former Lord Chancellor's Department was concerned with justice, rights and constitutional reform. Its aim was to build fair, effective and accessible justice services and to modernise the law and constitution. The Department's aim was supported by six strategic objectives. The use of resources is reported against these objectives in Schedule 5 of these accounts.

Principal activities

The Lord Chancellor's Department promoted the provision of legal services, wider access to justice and the reform of the civil law. Through the Legal Services Commission (LSC) and the Court Service, it was responsible for funding legal services and managing court processes. It supported the Lord Chancellor in the appointment of judges, Queen's Counsel, magistrates and tribunal chairmen and members, and it oversaw the local administration of the Magistrates' Courts.

The Lord Chancellor's Department consisted of a Headquarters and two executive Agencies, the Court Service and the Public Guardianship Office (PGO). Decisions relating to the day to day running of these Agencies remain the responsibility of their Chief Executives. Both the Court Service and the PGO publish their own annual reports and accounts.

The Court Service became an executive agency in April 1995. It is responsible for delivering fair and effective court services to the public, in partnership with the judiciary, through the county courts, the Crown Court, the High Court, the Court of Appeal and the tribunals for which the Secretary of State for Constitutional Affairs and Lord Chancellor is responsible.

The PGO became an executive agency in April 2001. The PGO acts as the administrative arm of the Court of Protection and administers the financial affairs of people with mental incapacity. It ensures their financial affairs are properly managed, usually through supervised receivers (often a member of the person's family), or occasionally directly.

The Lord Chancellor's Department was also responsible for the control and monitoring of the following associated offices:

- Law Commission;
- The Office of the Legal Services Ombudsman for England and Wales;
- Her Majesty's Magistrates' Courts Service Inspectorate;
- Council on Tribunals;
- Office of the Judge Advocate General;
- The Official Solicitor and Public Trustee; and
- Judicial Studies Board.

These associated offices, together with various tribunal and advisory non-departmental public bodies, fell within the resource accounting boundary and have been incorporated into the consolidated resource accounts.

The Office of the Legal Services Ombudsman prepares statutory accounts which are audited by the Comptroller and Auditor General. None of the other associated offices prepare statutory accounts, but some do report financial performance in their annual reports.

Public bodies

The Lord Chancellor's Department had lead policy responsibility for the Legal Services Commission; an executive non-departmental public body working within a statutory framework laid down by the Access To Justice Act 1999. The Commission is responsible for the development and administration of two schemes for publicly funded legal assistance in England and Wales. The Community Legal Service brings together public, private and voluntary organisations in partnerships to plan and deliver legal advice in certain types of civil claims. The Criminal Defence Service provides legal services to people facing criminal investigations and charges.

The Department was also responsible for the Children and Family Court Advisory and Support Service (CAFCASS) and the Information Commissioner's Office.

CAFCASS was created by the Criminal Justice and Court Service Act 2000. It is an executive non-departmental public body set up in April 2001 providing services that support vulnerable children in family court proceedings in England and Wales.

The Information Commissioner is an independent supervisory authority reporting directly to Parliament. The Information Commissioner enforces and oversees the Data Protection Act 1998 and the Freedom of Information Act 2000, whose duties include promoting codes of practice for the handling of information by data controllers. A data controller is someone who decides how and why personal data (information about identifiable, living individuals) are processed.

The Department did not exercise in-year budgetary control over these bodies and they are regarded as outside the boundary for the purpose of this account. All three publish their own audited annual reports and accounts.

The role of the Department also included the provision of funding for Magistrates' Courts Committees to enable them to provide an effective service. The Department set and monitored the performance framework within which Magistrates' Courts Committees work. The Department provided 80% funding for the committees, subject to a cash limit. The other 20% was provided by local authorities. The Department did not exercise direct budgetary or operational control over the Committees, which are outside the resource accounting boundary.

Departmental Report

The Lord Chancellor's Department published its Departmental Report in May 2003 (Cm 5910).

Operating and Financial Review

Operating Review

The Government's announcement in June 2003 saw the creation of a new Department for Constitutional Affairs. The new Department incorporates most of the responsibilities of the former Lord Chancellor's Department, but with the creation of a new Supreme Court, the creation of a Judicial Appointments Commission and an end to the previous role of the Lord Chancellor as a judge and Speaker of the House of Lords. Once these reforms are in place, the post of Lord Chancellor will be abolished, putting the relationship between the executive, legislature and judiciary on a new footing, giving new priority to and focus on service delivery and constitutional reform.

New arrangements have now been put in place for the conduct of Scottish and Welsh business. The Scotland and Wales Offices fall under the umbrella of the Department for Constitutional Affairs, together with the Under-Secretaries of State for Scotland and Wales for administrative purposes. At Cabinet level, responsibility for the conduct of Scottish and Welsh business, and lead responsibility for the representation of Wales and Scotland within the Government and Parliament, lies with the Secretary of State for Transport (Scotland) and the Leader of the House of Commons (Wales), supported by the staff located within the new Department. These changes also see departmental responsibility for the Legal Secretariat to the Advocate General for Scotland and the Office of the Solicitor to the Advocate General for Scotland transfer to the Department for Constitutional Affairs.

At the same time the Government announced that responsibility for family and parenting law and support, including responsibility for CAFCASS, would pass to the Minister of State for children at the Department for Education and Skills.

This review seeks to illustrate the environment in which the Lord Chancellor's Department was operating before its abolition and to highlight some of the key programmes it was involved in during 2002-03. More information can be found in the Departmental Report.

The Lord Chancellor's Department had grown rapidly over recent years. In recognition of its expanding remit, the Department launched a major change programme in July 2002. The aim of the change programme was to refocus the work of the Department and to transform the way it delivered its services. One of the first steps was to set up a new, streamlined Corporate Board.

The Department continued throughout 2002-03 to drive forward an extensive programme of modernisation and reform.

In July 2002 the Government published the White Paper *Justice for All* responding in full to the Auld Report and the Halliday Review into sentencing policy, and setting out a wider package of reforms to the Criminal Justice System. The reforms will see the unification of the administration of the courts, ending the current division between the 42 Magistrates' Courts Committees and the Court Service. Instead there will be a single, centrally funded agency directly accountable to the Secretary of State and, while the role still exists, the Lord Chancellor.

Government plans for a Unified Tribunal Service were announced in March 2003, with the aim of delivering sustainable improvement for users by bringing the non-devolved central government tribunals together under a single service.

In the civil courts, the report *Further Findings: a Continuing Evaluation of the Civil Justice Reforms* published in August 2002 showed the continuing impact of the Woolf reforms on the processes of civil justice.

Financial Review

The Lord Chancellor's Department was financed by Parliamentary Supply and, to a lesser extent, by income derived from fees and charges to external customers and other government bodies. Parliament also provided the authority for all of the Department's activities.

In common with other government departments, future financing has to be approved by Parliament. There is no reason to believe that Parliament will not now fund those responsibilities of the Lord Chancellor's Department that have transferred to the new Department for Constitutional Affairs. These accounts have therefore been prepared on a going concern basis for financial reporting and asset valuation purposes.

The Lord Chancellor's Department main Supply Estimate secured funding of £2.67 billion. In order to meet the costs of additional asylum activity as well as increased legal aid volumes the Department sought further financing including a claim on the Reserve. This additional funding brought the total voted monies available to the Department to £3.126 billion.

After taking account of £399 million of income appropriated in aid, the Lord Chancellor's Department net resource outturn in 2002-03 was £3.092 billion. This is £34 million less than the sum approved by Parliament and represents an underspend of 1% of total available resources. The Department also remained within its administration cost limit.

Further analysis of resource outturn by function, as reported in Note 8, reveals the impact of the additional asylum activity on the Community Legal Service and the increased legal aid volumes on the Criminal Defence Service. These overspends were offset by underspends across the Department's headquarters and its executive Agencies. The underspends here were achieved through management action to constrain costs and to keep the Department within its overall available resources.

Note 8 also highlights the fact that 70% of the Lord Chancellor's Department outturn went on funding the court system and access to justice; with 46% going to the Legal Services Commission, 14% to the Court Service and 10% to the magistrates' courts, by way of grants paid to local authorities.

The Lord Chancellor's Department analysed its outturn into administration and programme costs. Administration costs reflect the resources consumed directly in providing central government services, and include staff, estates and technology costs. In 2002-03 these three areas, together with their associated non-cash costs, accounted for 92% of the total; with staff accounting for 40% at £295 million, estates 36% at £267 million and technology 16% at £121 million. Programme costs included grants and direct programme expenditure such as judicial salaries and the costs of publicly funded representation in the higher criminal courts.

The Department made no changes to its accounting policies in the year covered by these financial statements.

Events since the end of the financial year

In addition to the creation of the new Department announced in June 2003, which is reported throughout this account, the following changes took effect:

From 1 April 2003 the Legal Services Commission assumed accountability for all Criminal Defence Service expenditure in the Crown Courts. The function of assessing and paying Crown Court bills (with the exception of cases conducted under individual case contracts) remains with the Court Service;

Also from 1 April 2003, the employer's pension costs associated with the payment of judicial salaries will become a cash cost. The setting up of the Judicial Pension Scheme will mean that the Department for Constitutional Affairs will also fund the employer's superannuation costs of the senior judiciary whose salaries are met by the Consolidated Fund.

Ministers

Ministerial responsibilities during the financial year were as follows:

Lord Chancellor	Lord Irvine of Lairg
Parliamentary Secretary	Baroness Scotland of Asthal QC
Parliamentary Secretary	Rosie Winterton MP
Parliamentary Secretary	Yvette Cooper MP

Yvette Cooper MP was appointed Parliamentary Secretary on 29 May 2002, in place of Michael Wills MP.

Lord Falconer of Thoroton QC was appointed as the first Secretary of State for the new Department and Lord Chancellor in June 2003. At the same time David Lammy MP, Lord Filkin CBE and Christopher Leslie MP were appointed Parliamentary Under-Secretaries.

The Scotland and Wales Offices are now located within the new Department, together with the Parliamentary Under-Secretary for Scotland, Don Touhig MP, and Wales, Anne McGuire MP. At Cabinet level,

responsibility for the conduct of Scottish and Welsh business and lead responsibility for the representation of Wales and Scotland within the Government and Parliament will lie with the Secretary of State for Transport, Alistair Darling MP (Scotland) and the Leader of the House of Commons, Peter Hain MP (Wales).

Corporate Board

One of the first steps under the Department's change programme was to create a new, streamlined Corporate Board. The membership of which is as follows:

Sir Hayden Phillips	Permanent Secretary
Ian Magee	Chief Executive, Operations (from 30 January 2003)
Jonathan Spencer	Director General, Clients and Policy (from 30 January 2003)
Simon Ball	Director General, Finance (from 20 January 2003)
John Lyon	Director General, Legal and Judicial Services and Secretary of Commissions (from 17 February 2003)
Trevor Hall	Non-executive Director (from 1 April 2002)

The Department has created an Executive Committee, which meets weekly. The Committee consists of the Corporate Board excluding non-executive directors and meets to discuss the Department's routine business.

Prior to this, membership of the Corporate Board was as follows:

Sir Hayden Phillips	Permanent Secretary
Ian Magee	Chief Executive, Court Service (to 29 January 2003)
Jonathan Spencer	Director General, Policy (to 29 January 2003)
Jenny Williams	Director General, Judicial Group (to 29 January 2003)
Jenny Rowe	Director, Corporate Services (to 29 January 2003)
Paul Jenkins	Director, Legal Advisors Group (to 29 January 2003)
Allan Percival	Director, Communications (to 29 January 2003)
Dave Nooney	Director, Modernising Government (to 29 January 2003
Trevor Hall	Non-executive Director (from 1 April 2002)
Patrick Macdougall	Non-executive Director (to 29 January 2003)

The permanent head of the Department was appointed by the Prime Minister on the recommendation of the Head of the Home Civil Service and with the agreement of the Ministerial Head of Department. The appointment is for an indefinite period under the terms of the Senior Civil Service contract. The rules for termination are set out in Chapter 11 of the Civil Service Management Code.

Other members of the Corporate Board were appointed by the Permanent Secretary. These appointments are also for an indefinite period except for Simon Ball who is employed on a fixed term Senior Civil Service contract. The rules of termination are set out in Chapter 11 of the Civil Service Management Code.

Remuneration

Ministers' remuneration is set by the Ministerial and Other Salaries Act 1975 and the Ministerial and Other Pensions and Salaries Act 1991.

The Permanent Secretary's pay is set by the Prime Minister on the recommendation of the Permanent Secretaries Remuneration Committee. The Committee's membership and terms of reference were announced by the then Prime Minister on 9 February 1995.

For the remaining members of the Corporate Board, pay is determined by the Permanent Secretary in accordance with the rules set out in Chapter 7.1, Annex A of the Civil Service Management Code.

Salaries for the judiciary are determined by the Lord Chancellor with the concurrence of HM Treasury in accordance with the relevant statutory provisions.

Further details on remuneration are set out in Note 2 to these accounts.

Early departure costs

The Lord Chancellor's Department was required to meet the additional cost of benefits beyond the normal Principal Civil Service Pension Scheme (PCSPS) benefits in respect of employees who retire early, unless the retirement is on approved medical grounds. The costs borne by the Department were provided in full when the early departure programme was announced and deemed binding on the Department. Prior to 1 April 2000 the Department was able, in certain circumstances, to settle some or all of its liability in advance. This facility has now been withdrawn.

Disabled persons

The Lord Chancellor's Department followed the Civil Service Code of Practice on the Employment of Disabled People. The code strove to ensure that there was no discrimination on the grounds of disability and that access to employment and career advancement was based solely on ability, qualification and suitability for the work. The Department aimed to provide access to the full range of recruitment and career opportunities for all people with disabilities, to establish working conditions which encouraged the full participation of people with disabilities and sought to retain existing staff who become disabled during their employment.

Equal opportunities

The Department was committed to the principle that its staff should have equality of opportunity in employment and advancement on the basis of their ability to do the job, irrespective of race, nationality, colour, ethnic or national origins, sex, marital status, disability, sexual orientation, age, gender reassignment, work pattern or membership or non-membership of a Trade Union. It was the Department's firm commitment that all staff were entitled to be treated with respect in an environment free from unfair discrimination, harassment, victimisation and bullying.

The Department recognised, respected and valued the diversity of the society it served and aimed to serve the interests of people from all sections of society.

Payments to suppliers

The Department was committed to the prompt payment of suppliers. Payments were normally made as specified in the contract. If there was no contractual provision or other understanding, they were paid within 30 days of the receipt of the goods or services, or on presentation of a valid invoice or other similar demand, whichever was the later. The most recent prompt payment survey, for the financial year 2002-03, showed that 95.4% (2001-02 95.0%) of invoices were paid on time.

Audit

These accounts have been audited by the Comptroller and Auditor General.

Sir Hayden Phillips
Accounting Officer

24 October 2003

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, the Department is required to prepare resource accounts for the year ended 31 March 2003, in conformity with a Treasury direction, detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

HM Treasury has appointed the Permanent Head of Department as Accounting Officer of the Department with responsibility for preparing the Department's accounts and for transmitting them to the Comptroller and Auditor General.

Additional Accounting Officers have been appointed to be accountable for those parts of the accounts relating to the executive Agencies. The additional Accounting Officers are responsible for the use of resources and associated assets, liabilities and cash flows under their control. These appointments do not detract from the responsibility of the Permanent Head of Department as Accounting Officer for the Department.

In preparing the accounts the Accounting Officer is required to comply with the *Resource Accounting Manual* prepared by HM Treasury; and in particular to:

- observe 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 *Resource Accounting Manual*, have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the Accounting Officer's Memorandum, issued by HM Treasury and published in *Government Accounting*.

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 Departmental policies, aims and objectives, set by the Department's Ministers, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

As Accounting Officer, I agree with Ministers the Departmental plans and allocation of resources to the Department's business areas and delegate financial authority to senior staff, together with corresponding internal control and risk management responsibilities.

A system of internal control operates in Departmental headquarters and that includes sponsorship branches that monitor the performance of our Agencies and NDPBs and their compliance with the agreed Framework Documents and Financial Memoranda. To the extent that those documents delegate control to the Agency or NDPB, I place reliance upon their Statement of Internal Control (as published in their annual reports and accounts).

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 procedures necessary to implement HM Treasury guidance on risk management are subject to continuing development and improvement and the Department plans to complete, test and embed those procedures in the organisational processes by 31 March 2004.

As part of the programme to further develop and refine its risk policy and framework in line with the Strategy Unit's report on risk and uncertainty the Department plans to:

- develop and implement an ongoing training strategy to ensure that new and existing staff are trained on the risk assessment process and risk awareness is embedded as an integral core skill for all staff;
- review and revise the Department's risk management policy and framework taking into account developments from a programme of improvement in the quality of risk management; and
- integrate the assessment of risk into policy-making.

Capacity to handle risk

As Accounting Officer I acknowledge my overall responsibility for the effective management of risk throughout the Department.

The Department's Risk Management Policy and Framework document was approved and endorsed by the Corporate Board and me, and was published in June 2002. It sets out the Department's attitude to risk in the achievement of its policies and objectives, and provides guidance on the process of identifying, assessing and managing risk. The document is available to all staff on the Department's Intranet.

Registers that identify, assess and set out mitigating actions to significant risks are in place across the Department's headquarters, Agencies and NDPBs and were considered by the Corporate Board in March 2003. The management and review of the risks identified is led at Board and Directorate level within those business areas. Building on this information, a consolidated Corporate Risk Register was developed to report on the significant risks across the entire organisation. This was considered by the Executive Committee in July 2003, where the format, process and a quarterly cycle of reporting for the Committee were agreed.

The Department has also appointed its Principal Finance Officer to lead the Department's work in implementing the recommendations contained in the Strategy Unit's report *Risk: Improving Government's capability to handle risk and uncertainty.*

The Lord Chancellor's Department headquarters led the provision of a further series of risk management workshops throughout the year, for staff at senior and operational levels. The workshops facilitated the completion of risk assessments for business units' significant risks.

The risk and control framework

The key elements of the Department's risk management strategy for identifying, evaluating and controlling risk are as follows:

- a policy and framework document, setting out formal processes for identifying, evaluating, managing and reporting risk;
- a system of analysis and reporting that identifies risk to objectives, risk impact and likelihood, current and planned mitigating action and individual risk owners;
- a series of risk workshops to assist with the identification and evaluation of risks to objectives;
- risk registers at Board and Group level for each of the Departmental business areas;
- a consolidated Corporate Risk Register, informed by the business area risk reporting, reviewed quarterly by the Corporate Board;
- annual self certification by Senior Budget Holders, Agency and NDPB Accounting Officers on the development and effectiveness of risk management in their business areas;
- a central Corporate Governance team leading on policy, co-ordinating risk reporting and review across the Department, monitoring progress and responding to requirements issued by central departments;
- risk co-ordinators in each of the Department's business areas;
- formal programme and project management disciplines, incorporating procedures for the management of risk; and
- making risk identification, evaluation and management an integral part of the Department's planning process for its Public Service Agreement delivery plans;

The other key elements in the Department's control system are regular management information, financial regulations, administrative procedures including segregation of duties, and a system of delegation and accountability. In particular it includes:

- approval by the Corporate Board and Ministers of the Department's business planning;
- comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Corporate Board;
- regular reviews by the Corporate Board of periodic and annual financial reports, prepared to indicate financial performance against the forecasts;
- target setting to measure financial and other performance;
- clearly defined capital investment control guidelines;
- a formal system of financial compliance controls, consisting of core control checks with an auditable trail of evidence, and a review and reporting mechanism to provide assurances from Senior Budget Holders, on a biannual basis, that internal financial controls are in place and operating effectively;
- the provision of a statement of assurance by Liberata UK Limited to confirm that the accounting services supplied by them have been delivered in compliance with the assurance and control requirements of their contract with the Lord Chancellor's Department;
- a published fraud policy, with effective capability to investigate incidents of fraud, including a cadre of trained staff;
- a whistle-blowing policy for confidential reporting of staff concerns;
- the development and refinement of Business Continuity Plans, ensuring that key activities throughout the Department can continue effectively following a disruption; and
- work towards achieving compliance with ISO17799, the International Standard for Information Security Management across the Department. Following an independent review of the project, and with agreement from the Cabinet Office, the target date for compliance on our key information systems has been extended to September 2004.

In addition to the developments in risk management referred to above, the Department is taking major steps to improve its corporate governance. In July 2002, it launched a Departmental Change Programme (DCP) aimed at bringing about radical cultural and structural change to deliver a step-change in customer service. The Programme's proposals have resulted in a re-organisation of the Department into four Directorates and have placed Finance, with its responsibility for internal control, at the centre of Departmental business and decision-making. Work already underway includes a Leadership Programme, co-ordinated team briefing and performance management. The Programme is also supporting the creation of a Departmental Centre of Excellence for programme and project management in accordance with Office of Government Commerce requirements.

During 2002-03 the Department also engaged in a series of reviews of key areas of income, expenditure and financial control, conducted jointly with HM Treasury. The reviews covered the following areas:

- Legal Aid: Sustainable Package 2003-04 to 2005-06;
- Estate Management and Asset Disposal;
- Return to Full Cost Recovery for Civil Court Services through Fees and Charges; and
- Financial Management and Systems;

The reviews reported formally to Ministers and made a series of recommendations focused on ensuring that the Department is able to operate within its 2002 Spending Review Settlement. The Department is addressing the recommendations and work is being taken forward during the financial year 2003-04.

After the end of the financial year 2002-03 the Department undertook a Corporate Audit to: inform its short and medium-term decision making; improve its use of resources over the medium-term; confirm and develop the DCP; secure the required investment and, initiate the formation of SR2004. The exercise is ongoing.

Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and the executive managers within the Department 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.

The key elements of the system of internal control are set out above and contribute to my review of the system's effectiveness. In addition, the following bodies also inform my review:

- **Corporate Board** - The Board approved the Department's Framework and Policy Document and have been involved in the development of the Corporate Risk Register. The Department's Executive Committee will consider the quarterly risk reports and any issues arising will be discussed by the Corporate Board.
- **Audit Committee** - The Committee is a continuing source of advice and assurance on the effectiveness of the risk management process. The Committee meets a minimum of three times each year and has a non-executive chairman. It receives regular reports on the development of risk management and internal control and considers internal and external audits on the system of internal control and any material weaknesses. For the financial year 2003-04, the chairman will report directly to the Accounting Officer and the Corporate Board at least twice a year. It is proposed that the Committee will also provide an oversight role for the Department's agency and NDPB audit committees. The non-executive chairs of these committees will be invited to attend the Corporate Audit Committee periodically as well.
- **Risk Co-ordinators** - A network of Risk Co-ordinators has been established within the Department's headquarters, Agencies and NDPBs, to co-ordinate the reporting and management of risk and control issues within business areas and for the Department in reporting to the Executive Committee, the Audit Committee and internal and external auditors.
- **Internal Audit** – The Department has an Internal Audit (Assurance) Division that operates to the Government Internal Audit Standards. It submits regular reports, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Department's internal control together with recommendations for improvement.

I outline below the significant internal control issues for the Department:

2001-02 Statement of Internal Control: update

National Taxing Teams (NTT)

Recovery of overpayments for interim payments is continuing. All such payments have been identified but work continues on recovering these payments. A further £295,404 was recovered in 2002-03. An irreconcilable balance of £703,000 has been identified and HM Treasury approval for this to be written off has been given. A further £35,083 of debts that could not be recovered economically were written off in 2002-03. Further work to recover the overpayments will be made in 2003-04 with a target date for completion of January 2004. National Audit Office is monitoring progress.

Sealing of Civil Legal Aid Taxation Certificates

After detailed discussions with the bodies involved in this function, revised instructions were issued to all courts on 7 April 2003. The revised instructions are comprehensive, but have yet to be monitored and tested.

Recovery of Defence Costs Orders (RDCOs)

Further guidance and training were provided to staff in the first part of the year. A review in the latter part of the year identified that some areas were still not maintaining logs properly and the compliance control was re-issued in November 2002. Court Service managers have been reminded of the need to follow the correct procedures and the Senior Presiding Judge has been made aware of the issue.

The Clerks to the General Commissioners of Income Tax

The interim IT solution the Department used was terminated and a new supplier has been contracted to provide a system by January 2004. In the interim, changes have been made to the payment mechanisms and procedures, though these payments mostly continue to be on a manual basis.

Magistrates' courts grants payments system

Internal Audit reports identified significant weaknesses in controls for the allocation and payment of grants to local authorities. Revised controls have been implemented but have not been adequate, due to the changes in Magistrates' Courts Committee structures. Revised controls are being developed to accommodate these changes and will be robust enough to ensure that they deal with the full requirement of the allocation model and mechanism. As part of the move towards Unified Administration, this review is taking into account possible effects on controls and the allocation process that this may have.

Collection of Fines/Penalties

Magistrates' Court Committees are directly responsible for collecting fines and fees payable to magistrates' courts and for maintaining efficient and effective internal control systems that give accurate and complete accounts.

The Public Accounts Committee reported its concerns in November 2002 on the Collection of Fines and other Financial Penalties in the Criminal Justice System (HC 999). Two internal audit reports in February 2002 and June 2003 have highlighted continuing major weaknesses and inadequacies in the control of fine and fee receipts by magistrates' courts. This includes monies recovered by enforcement agencies, the banking of payments and the reconciliation of bank statements and balances at courts.

The revised Management Assurance Programme issued to the Magistrates' Courts Committees aims to address these and any remaining weaknesses in control over the collection and payments of fines and fees and to assist in maintaining financial and accounting controls generally.

An enforcement programme has now been established with the aim of driving in strong change in enforcement performance. The programme consists of four projects:

- Targeted Support Task Force;
- Courts Bill pilots;
- Business re-designing; and
- Improvement Initiatives.

2002-03

In-Year monitoring of expenditure

Financial In-Year monitoring and control procedures were adhered to but indicated breaches of our spending limit in the year. The role of the Department's Finance Division is to co-ordinate the budgeting and forecasting of the Department as a whole, analysing spend and forecast outturn, and challenging data to provide information on the actual expenditure detail. Its role is also to report to the Corporate Board, through the Finance Committee, on the Department's financial position and provide recommendations on what steps to take to control expenditure, identify pressures that must be met and forecast the consequences on the Department's performance where spending is restrained.

The joint Departmental and HM Treasury review identified improvements for this area and steps identified in its report are being taken forward. In addition, a Corporate Audit of the SR2002 settlement was carried out to identify to the Corporate Board what areas of expenditure the Department can meet within its allocation.

Financial commitment procedures were also identified as needing improvement, and recommendations on delegation procedures and authorities reform are due to be implemented.

Procurement of Professional Services

An audit of this procurement area has identified that significant action is required to improve the adequacy and effectiveness of control over the use of such services. A Departmental Action Plan has been agreed and implementation is underway. New guidance has been issued and improved management control and scrutiny introduced.

The Magistrates' Courts Revenue Grant Allocation Project was subject to audit in October 2002. This area was identified as having major weaknesses in its project management, procurement and control of such services. Audit recommendations have been adopted and implemented and a further review to strengthen planning and operating controls in this project is continuing.

Netting-off scheme of fines collected by the magistrates' courts.

Internal audit have identified significant weaknesses in the HM Treasury approved "netting-off" funding scheme introduced to finance the additional costs of increased fine collection. Monies paid to the Magistrates' Courts Committees for the purposes of increasing fine collection rates have not been spent for that purpose. The target of a five per cent increase in fine collection for 2002-03 has not been met, and collection rates have actually fallen.

The Department is reviewing the strategy for the second year of the scheme in order to strengthen the planning and operational controls for the scheme.

LIBRA

Following a National Audit Office report and Public Accounts Committee hearing, significant weaknesses were identified in the governance arrangements, risk management and project management. A further audit has taken place and improvements to the controls for risk and project management are now in place. Further work to strengthen corporate governance arrangements is still required. These issues are being addressed by the project manager as a priority.

Public Guardianship Office: Stewardship Accounts in respect of Third Party Assets

Difficulties in the Receivership Group have prevented the production of these accounts as required in the PGO framework document. The project board has met and agreed that the first production of these accounts will be in 2003-04 and will act as a "dry run", with the accounts for 2004-05 being presented for external audit.

Sir Hayden Phillips 24 October 2003
Accounting Officer

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

I certify that I have audited the financial statements on pages 18 to 55 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 24 to 28.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 10, the Accounting Officer is responsible for the preparation of the financial statements and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and 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. I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent mis-statements or material inconsistencies with the financial statements.

I review whether the statement on pages 10 to 15 reflects the Department's compliance with Treasury's guidance *Corporate Governance: Statement on Internal Control.* I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Department's circumstances, consistently applied and adequately disclosed.

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 are free from material mis-statement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conformed to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Lord Chancellor's Department at 31 March 2003 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and the statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by the Treasury;
- 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.

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

28 October 2003

SCHEDULE 1

Summary of Resource Outturn

for the year ended 31 March 2003

	2002-03							2001-02
	Estimate			Outturn			Difference	Outturn
	Gross Expenditure £000	*A-in-A* £000	*Net Total* £000	*Gross Expenditure* £000	*A-in-A* £000	*Net Total* [1] £000	*Net Total Outturn compared with Estimate saving/ (excess)* £000	*Net Total* [1] £000
Request for Resources (Notes 5 and 8)	3,544,067	(418,109)	3,125,958	3,490,661	(398,731)	3,091,930	34,028	2,767,035
Total resources	**3,544,067**	**(418,109)**	**3,125,958**	**3,490,661**	**(398,731)**	**3,091,930**	**34,028**	**2,767,035**
Non-operating cost A-in-A (Note 10)			**1,010**			**1,010**	**-**	**2,814**
Net cash requirement			**2,968,551**			**2,914,812**	**53,739**	**2,604,853**

	Note	£000	£000	£000	£000
Reconciliation of resources to net cash requirement					
Net total resources		**3,125,958**	**3,091,930**	**34,028**	**2,767,035**
Capital:					
Purchase of fixed assets	10	48,807	25,645	23,162	36,423
HM Land Registry: Capital Modernisation Fund		1,100	1,100	-	-
Repayment of capital element of finance lease		-	1,167	(1,167)	1,981
Non-operating cost A-in-A					
Book value of fixed asset disposals	10	(1,010)	(1,010)	-	(2,814)
Accruals adjustments:					
Non-cash items	12.1	(206,701)	(228,865)	22,164	(173,050)
Changes in working capital other than cash	13.1	397	17,642	(17,245)	(25,782)
Changes in creditors falling due after one year	13.1	-	1,183	(1,183)	328
Use of provision	17	-	1,452	(1,452)	1,732
Adjustment in respect of amounts due to other government departments		-	4,568	(4,568)	-
Transfer of functions – difference between resource and cash		-	-	-	(1,000)
Net cash requirement (Schedule 4)		**2,968,551**	**2,914,812**	**53,739**	**2,604,853**

Explanation of variation between Estimate and Outturn:

The variation between Estimate and actual resource outturn is not considered to be significant under the rules currently laid down by *Government Accounting*.

Explanation of the variation between Estimate net cash requirement and Outturn net cash requirement:

The variation between Estimate and actual net cash requirement is not considered to be significant under the rules currently laid down by *Government Accounting*.

The notes on pages 24 to 55 form part of these accounts.

Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics).

	2002-03 Forecast		2002-03 Outturn	
	Income	*Receipts*	Income	*Receipts*
	£000	*£000*	£000	*£000*
Operating income and receipts – excess A-in-A	-	-	-	-
Non-operating income and receipts – excess A-in-A	-	-	3,913	*3,913*
	-	-	3,913	*3,913*
Other operating income and receipts not classified as A-in-A	-	-	3,884	*3,931*
Other non-operating income and receipts not classified as A-in-A	-	-	-	-
Other amounts collectable on behalf of the Consolidated Fund	198,218	*198,218*	173,799	*169,808*
	198,218	***198,218***	**181,596**	***177,652***

Notes

1. **Actual outturn – Resources**
   Actual amount of net resources outturn is £3,091,929,086.49. Actual amount of savings in resources over Estimate is £34,028,913.51.

   Actual outturn – Cash
   Net Cash requirement: Outturn net requirement is £2,914,811,668.80, which is £53,739,331.20 less than Estimate.

2. There is excess non-operating A-in-A of £3,913,298.63.

3. The actual receipts, surrenderable to the Consolidated Fund, were £177,652,790.14.

The notes on pages 24 to 55 form part of these accounts.

SCHEDULE 2

Operating Cost Statement
for the year ended 31 March 2003

	Note	2002-03 £000	2002-03 £000	2001-02 As restated £000	2001-02 As restated £000
Administration Costs					
Staff costs	2.2		286,071		259,972
Other administration costs	3		449,735		352,200
Gross Administration Costs			**735,806**		**612,172**
Operating income	5.2		(8,890)		(7,168)
Net Administration Costs			**726,916**		**605,004**
Programme Costs					
Current Grants					
Expenditure	4	2,479,999		2,248,787	
Less: income	5.2	(136)		(158)	
		2,479,863		**2,248,629**	
Capital Grants					
Expenditure	4	36,156		27,341	
		36,156		**27,341**	
Other Disbursements					
Judicial salaries	2.5	251,550		232,093	
Expenditure	4	122,509		122,981	
Less: income	5.2	(393,589)		(338,521)	
		(19,530)		**16,553**	
Net Programme Costs	4		**2,496,489**		**2,292,523**
Net Operating Costs	7 & 8		**3,223,405**		**2,897,527**
Net Resource Outturn	7 & 8		**3,091,930**		**2,767,035**

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses
for the year ended 31 March 2003

	Note	2002-03 £000	2001-02 £000
Unrealised surplus on revaluation of tangible fixed assets	19	63,503	202,908
Total recognised gains and losses for the financial year		**63,503**	**202,908**

The notes on pages 24 to 55 form part of these accounts.

SCHEDULE 3

Balance Sheet

as at 31 March 2003

	Note	31 March 2003 £000	31 March 2003 £000	31 March 2002 £000	31 March 2002 £000
Fixed Assets					
Tangible assets	11	1,583,793		1,550,781	
			1,583,793		**1,550,781**
Current Assets					
Debtors	14	100,111		78,796	
Cash at bank and in hand	15	171,926		102,094	
		272,037		**180,890**	
Creditors (amounts falling due within one year)	16.1	**(285,826)**		**(200,958)**	
Net current assets			**(13,789)**		**(20,068)**
Total assets less current liabilities			**1,570,004**		**1,530,713**
Creditors (amounts falling due after more than one year)	16.2	(7)		(1,190)	
Provisions for liabilities and charges	17	(514,430)		(437,466)	
			(514,437)		**(438,656)**
			1,055,567		**1,092,057**
Taxpayers' Equity					
General fund	18		457,074		541,850
Revaluation reserve	19		598,493		550,207
			1,055,567		**1,092,057**

Sir Hayden Phillips
Accounting Officer
24 October 2003

The notes on pages 24 to 55 form part of these accounts.

SCHEDULE 4

Cash Flow Statement

for the year ended 31 March 2003

	Note	2002-03 £000	2001-02 £000
Net cash outflow from operating activities		(2,883,772)	(2,553,483)
Capital expenditure and financial investment		(17,457)	(35,214)
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		169,808	241,869
Receipts due to other government departments which are outside the scope of the Department's activities		72,802	-
Increase in third party balances		7,216	7,285
Payments of amounts due to the Consolidated Fund		(177,233)	(217,879)
Payments to other government departments		(66,227)	-
Financing		2,964,695	2,596,311
Increase in cash	15	**69,832**	**38,889**
Reconciliation of operating cost to operating cash flows			
Net operating cost (Schedule 2)		3,223,405	2,897,527
Adjustments for non-cash transactions	12.2	(363,853)	(301,343)
Adjustments for movements in working capital other than cash	13.2	22,768	(44,433)
Use of provisions	17	1,452	1,732
Net cash outflow from operating activities		**2,883,772**	**2,553,483**
Analysis of capital expenditure and financial investment			
Purchase of tangible fixed assets	10	21,651	35,524
Proceeds from disposal of fixed assets	10	(4,194)	(310)
Net cash outflow from investing activities		**17,457**	**35,214**
Analysis of financing and reconciliation to the net cash requirement			
Received from the Consolidated Fund (Supply)		2,968,551	2,590,993
Paid to the Consolidated Fund		(2,689)	-
Advances from the Contingencies Fund		350,000	-
Repayments to the Contingencies Fund		(350,000)	-
Transfer of Machinery of Government cash		-	7,299
Repayment of capital element of finance lease		(1,167)	(1,981)
Net financing		**2,964,695**	**2,596,311**
Increase in cash	15	(69,832)	(38,889)
Consolidated Fund Extra Receipts received in 2002-03 not paid over		30,506	30,128
Consolidated Fund Extra Receipts received in prior year paid over		(30,087)	(2,450)
Receipts due to other government departments not paid over		11,144	-
Surplus A-in-A from previous year paid over		-	(2,092)
Increase in third party balances		7,216	7,285
Repayment of capital element of finance lease		1,167	1,981
Transfer of Machinery of Government cash		-	(7,299)
Transitional arrangements		-	19,878
Prior year adjustment: Consolidated Fund Extra Receipts		3	-
Net cash requirement (Schedule 1)		**2,914,812**	**2,604,853**

NOTE:
1. Amount of grant actually issued to support the net cash requirement £2,968,551,000.00.

The notes on pages 24 to 55 form part of these accounts.

SCHEDULE 5

Resources by Departmental Aim and Objectives

for the year ended 31 March 2003

Aim:

The aim of the Lord Chancellor's Department is justice.

	2002-03			2001-02		
	Gross	Income	Net	Gross	Income	Net
Objectives:	£000	£000	£000	£000	£000	£000
1 To provide a fair, swift and effective system of justice which promotes confidence in the rule of law; helps reduce crime, the fear of crime, and the economic consequences of crime; and gives value for money.	2,345,283	(341,732)	2,003,551	2,091,956	(264,528)	1,827,428
2 To improve people's knowledge and understanding of their rights and responsibilities including how to resolve disputes which affect them, in a way and at a cost proportionate to the issues at stake.	130,734	(82)	130,652	117,646	-	117,646
3 To improve the availability of affordable and good quality legal services so that the law underpins economic success, at home and abroad and that the use of public funds secures greater social justice and reduces social exclusion.	552,609	(14,626)	537,983	503,827	(13,578)	490,249
4 To make civil and family law clearer and more easily enforceable giving priority to key Government objectives in tackling social and economic issues.	74,440	(134)	74,306	66,776	(22,798)	43,978
5 To improve the lives of children and help build and sustain strong families through providing a legal and procedural framework to sustain family relationships and, when they do break down, to resolve disputes with the least distress to those affected, especially the most vulnerable.	475,872	(37,286)	438,586	426,753	(39,607)	387,146
6 To uphold the independence of the judiciary especially through the appointment of sufficient judges, magistrates and other judicial post holders of the right calibre to match needs, and through promoting a partnership with the judiciary for delivering justice effectively.	30,041	(329)	29,712	24,950	(169)	24,781
Following the general election in June 2001, the Prime Minister announced a number of major changes to the machinery of government. As a result the Department took on areas of work that cannot be assigned to its current objectives. The objectives have been reviewed as part of the SR2002 process, and revised objectives came into effect from April 2003. In the meantime costs associated with these new duties are reported separately.	17,041	(8,426)	8,615	11,466	(5,167)	6,299
Net Operating Costs	**3,626,020**	**(402,615)**	**3,223,405**	**3,243,374**	**(345,847)**	**2,897,527**

The notes on pages 24 to 55 form part of these accounts.

Notes to the accounts

for the year ended 31 March 2003

1 Statement of accounting policies

The financial statements have been prepared in accordance with the 2002-03 Resource Accounting Manual (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the RAM permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

The accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

1.2 Basis of consolidation

The accounts comprise a consolidation of the Lord Chancellor's Department and its Supply-financed Agencies, the Court Service and the Public Guardianship Office (PGO). Both the Court Service and the PGO produce their own annual reports and accounts.

The Department is also responsible for the control and monitoring of the following other offices: the Law Commission, the Office of the Legal Services Ombudsman for England and Wales, Her Majesty's Magistrates' Courts Service Inspectorate, Council on Tribunals, Office of the Judge Advocate General, the Official Solicitor and Public Trustee, the Judicial Studies Board and the Commission for Judicial Appointments. These, together with various tribunal and advisory non-Departmental public bodies, fall within the departmental accounting boundary and are incorporated into the consolidated resource accounts.

The results of the Legal Services Commission, CAFCASS and the Information Commissioner's Office are not included by way of consolidation. These executive non-departmental public bodies fall outside the departmental boundary. All three publish their own audited annual report and accounts.

1.3 Tangible fixed assets

Legal title to freehold land and buildings shown in the accounts is held in the name of the First Secretary of State. The Department assumed responsibility for the former Departmental Estate on 1 April 1991 and the former Common User Estate on 1 April 1996. The Department enjoys beneficial ownership of the properties it uses as "major occupier" and such properties are therefore capitalised and included in the balance sheet.

Assets costing more than the prescribed capitalisation level of £1,000 are treated as capital assets. Where an item costs less than the prescribed limit but forms an integral part of a package whose total value is greater than the capitalisation level, then the item is treated as a capital asset.

For furniture, except for antiques and high density storage, the total cost of maintaining a record of relatively low value individual items is considered prohibitive and therefore these items are recorded on a pooled basis.

Antique furniture that is used in the business is valued individually at open market value. The value of non-operational antiques, such as paintings and other works of art, is not considered material and these items are not capitalised for balance sheet purposes.

All tangible fixed assets are restated to current value each year. Land and buildings are restated to current value using professional valuations in accordance with FRS 15 at least every five years and in the intervening years by the use of appropriate indices. In 2000-01 a rolling programme of professional valuations was introduced. The Valuation Office Agency (VOA) carries out the valuations in accordance with the RICS Appraisal and Valuation Manual. This involves revaluing each year 20%, by number, of the property assets

together with the four most highly valued properties. The 20% are drawn from different types of property and geographical areas. The results of the revaluation are used to derive revaluation indices for each category, which are then applied to the remaining assets.

Specialised property with no established market, such as purpose-built Crown courts, is valued on the basis of depreciated replacement cost. The open market value of these properties is significantly lower than that included in the accounts. Other property, such as offices, is valued on the basis of existing use value. Other tangible fixed assets have been stated at their value to the business by reference to indices published by the Office of National Statistics.

1.4 Depreciation

Freehold land is not depreciated. Assets in the course of construction are not depreciated until the asset is brought into use. Residual interests in off-balance sheet PFI contract assets are not depreciated until the asset reverts to the Department.

The cost (or revalued amounts) of all other tangible fixed assets is spread over their useful economic lives in equal instalments and for leased assets, over the life of the lease. Lives are normally in the following ranges:

Freehold buildings	Remaining life, or 60 years whichever is shorter.
Leasehold buildings	Remaining life, remaining lease period or 50 years whichever is shortest. Leasehold land with more than 125 years remaining are not depreciated.
Leasehold land	Remaining lease period (except that leases with more than 125 years remaining are not depreciated).
Information technology	5 to 7 years
Plant and machinery	3 to 7 years
Furniture and fittings including antiques	10 to 50 years

1.5 Stock

Stocks of stationery and other consumable stores are not considered material and are written off in the Operating Cost Statement as they are purchased.

1.6 Pensions

Most of the Department's staff are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is non-contributory and unfunded. Although the scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS. The Department, its Agencies and other bodies covered by the PCSPS recognise the expected cost of providing pensions on a systematic and rational basis over the period during which they benefit from employee's service by payment of charges calculated on an accruing basis. Employer contributions to this scheme are charged to the Operating Cost Statement.

The Department has separate schemes for the Law Commissioners and Immigration Adjudicators, which are 'by analogy' to the PCSPS. Provision has been made for the future cost of benefits under these schemes.

1.7 Early departure costs

The Department is required to pay the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early, unless the retirement is on approved medical grounds. The total cost is provided in full when the early departure programme has been announced and is binding on the Department. The estimated [risk-adjusted] cash flows are discounted using the Treasury discount rate of 6% in real terms.

Prior to 1 April 2000 the Department could, under certain circumstances, settle some or all of its liability in advance. Any remaining prefunding is shown in the Balance Sheet as a prepayment.

1.8 Research and development

Expenditure on research is charged to the Operating Cost Statement as it is incurred. Development expenditure is capitalised if it meets the criteria specified in the RAM, which are adapted from SSAP13 to take account of the not-for-profit context. Expenditure which does not meet the criteria for capitalisation is charged to the Operating Cost Statement as it is incurred.

1.9 Operating income

Operating income includes both operating income appropriated in aid and income due to the Consolidated Fund authorised by HM Treasury to be treated as operating income. It is stated net of VAT. It comprises primarily fees and charges for services provided to external customers by the Department's two executive Agencies and the Information Commissioner, an executive NDPB.

The Court Service records each fee in full at the time it is raised. In a number of cases fees taken will relate to work which will not be completed within the accounting period. Deferred income is estimated at period end using a standard time per case workflow model to adjust the total income recorded in the period.

The PGO recognises all material fee types on an accruals basis. A year-end adjustment is made to accrue for fees charged under the Mental Health Act 1983 for each customer account.

The Official Solicitor and Public Trustee earns fees from its Estates, Litigation and Trust activities. In Estates, a bill of costs is either raised once a year, in the majority of case types, or on completion of the case, for conveyancing and administration of estates. In Litigation, a bill of costs is drawn on completion of the case. For Trust, administration fees are due on 1 April and are based on the capital value of the case. Other fees charged are recognised when they fall due for payment.

An analysis of fees and charges to external and public sector customers shows income, full cost and surplus or deficit. This analysis reflects requirements in HM Treasury's Fees and Charges Guide. It is not provided for the purpose of SSAP 25.

1.10 Administration and programme expenditure

The Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the costs of running the Department. These include both administrative costs and associated operating income. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against the gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not.

Programme costs reflect non-administrative costs, including payments of grants and other disbursements by the Department.

1.11 Grants payable and paid

The majority of grants paid by the Department are recorded as expenditure in the period in which the claim is paid. The claims are deemed to be the only appropriate and measurable activity that truly creates an entitlement for the recipient.

The Department recognises grants paid and payable to its executive non-departmental public bodies in the period in which they are paid, but as adjusted for the amount, over and above the allowable threshold, unspent by the recipient at 31 March.

The Department makes other major grants to local authorities in respect of magistrates' court's costs. The Department funds 80% of the estimated costs of the magistrates' courts. It pays out 90% of this estimate during the financial year and withholds 10% until the certification of grant claims by local authority auditors in the following (or later) financial year confirms the entitlement.

The Department also makes a large number of smaller grants to a variety of public sector, private sector and voluntary bodies. These grants are recognised at the point at which an authorised request is received from the recipient body in accordance with the relevant financial memoranda, adjusted for the amount unspent at 31 March.

1.12 Operating leases

Rentals under operating leases are charged to the Operating Cost Statement on a straight-line basis over the lease term.

1.13 Finance leases

Where assets are financed by leasing agreements that give rights approximating to ownership, the assets are treated as if they had been purchased outright. The amount capitalised is the fair value of the leased assets. The corresponding leasing commitments are shown as obligations to the lessor. Assets held under finance leases are depreciated over the shorter of the lease term and the useful life of equivalent owned assets.

1.14 Private Finance Initiative

The Department has contracts under the Government's Private Finance Initiative (PFI) for the provision of accounting, IT and building services. The accounting treatment of the contracts is in accordance with HM Treasury's guidance as outlined in Technical Note No 1 (revised) issued in July 1999.

Where the balance of the risks and rewards of ownership is borne by the PFI operator the PFI payments are recorded as an operating cost. Where the Department has contributed assets a prepayment for their fair value is recognised and amortised over the life of the PFI contract by charge to the Operating Cost Statement.

Where the balance of the risks and rewards of ownership is borne by the Department the asset is recognised on the balance sheet with the liability to pay for it accounted for as a finance lease.

1.15 Non-cash costs

Capital charge

A charge reflecting the cost of capital utilised by the Department is included in operating costs. The charge is calculated at the Government's standard rate of 6% in real terms on the average of opening and closing net assets employed except amounts to be surrendered to the Consolidated Fund and cash holdings with the Office of Paymaster General, where the charge is nil.

Other

Other non-cash costs included in the Operating Cost Statement are the external auditors' remuneration, which represents the cost of the audit of the financial statements carried out by the National Audit Office, judicial salaries and pensions met from the Consolidated Fund and pension costs for other members of the judiciary whose salary is paid directly from the Department's voted resources.

1.16 Criminal Defence Service (CDS)

Under the CDS the funding of proceedings in magistrates' courts falls to the Legal Services Commission (LSC). The Department was directly responsible during the year for the funding of representation in the higher criminal courts, via the Court Service. Although certain very high cost cases were managed by the LSC under contract. The Department has estimated its direct liability at the balance sheet date using a model. It recognises this liability as a provision to reflect the uncertainty relating to both the timing and the amount of future expenditure. From 1 April 2003 responsibility for funding in the higher criminal courts passed to the LSC, with the function of assessing and paying Crown Court bills (with the exception of cases conducted under individual case contracts) remaining with the Department.

1.17 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the Department discloses for Parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of transfer of economic benefit is remote. These comprise:

- items over £100,000 (or lower where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by departmental Minute prior to the Department entering into the arrangement;

- all items (whether or not they arise in the normal course of business) over £100,000 (or lower, where required by specific statute or where material in the context of the resource accounts) which are required by the Resource Accounting Manual to be noted in the resource accounts.

1.18 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.

1.19 Prior year comparatives

Prior year comparatives have been restated to reflect the fact that the costs of employing agency staff as staff substitutes are now disclosed as payroll costs rather than administration costs.

1.20 Machinery of Government and the transfer of functions

The Department accounts for the transfer of functions from one part of the public sector to another using merger accounting, as described in FRS 6.

The results and cash flows of all combining entities are presented from the start of the financial year in which the combination occurs and prior year comparatives are restated.

Assets and liabilities are not adjusted to their fair value on consolidation; rather their carrying values are combined, with the net effect of these adjustments shown as a movement on reserves. Appropriate adjustments to ensure uniformity of accounting policies are treated as prior year adjustments.

1.21 Third party assets

The Department and its executive Agencies hold, as custodian or trustee, certain assets belonging to third parties. These are not recognised in the accounts since neither the Department nor government more generally has a direct beneficial interest in them.

However, where amounts have been paid into court by litigants pending the outcome of actions these monies are held in accounts at the Office of HM Paymaster General for 21 days before being transferred to the Court Funds Office. Any third party monies held at the Office of HM Paymaster General at 31 March are recognised as both cash at bank and creditors.

1.22 Magistrates' courts fines and fees

The Department accepts fines and fees imposed and collected in the magistrates' courts, for onward transmission to the Consolidated Fund. These receipts are deemed to be outside the scope of the Department's activities. The amount of fines and fees collected by the magistrates' courts and not paid over to the Department at 31 March is recognised as both a debtor to the Department and a creditor to the Consolidated Fund.

2 Staff and judiciary numbers and costs

2.1 Staff numbers

The number of full-time equivalent persons employed (including senior management, Ministers, special advisors, staff on secondment or loan into the Department and agency temporary staff, but excluding staff on secondment to other organisations) during the year was as follows:

	2002-03	2001-02 As restated
	Number	Number
Objective		
1. To provide a fair, swift and effective system of justice which promotes confidence in the rule of law; helps reduce crime, the fear of crime, and the economic consequences of crime; and gives value for money.	9,701	8,953
2. To improve people's knowledge and understanding of their rights and responsibilities including how to resolve disputes which affect them, in a way and at a cost proportionate to the issues at stake.	420	364
3. To improve the availability of affordable and good quality legal services so that the law underpins economic success, at home and abroad and that the use of public funds secures greater social justice and reduces social exclusion.	556	581
4. To make civil and family law clearer and more easily enforceable giving priority to key Government objectives in tackling social and economic issues.	931	897
5. To improve the lives of children and help build and sustain strong families through providing a legal and procedural framework to sustain family relationships and when they do break down, to resolve disputes with the least distress to those affected, especially the most vulnerable.	1,507	1,368
6. To uphold the independence of the judiciary especially through the appointment of sufficient judges, magistrates and other judicial post holders of the right calibre to match needs, and through promoting a partnership with the judiciary for delivering justice effectively.	285	186
Following the general election in June 2001, the Prime Minister announced a number of major changes to the machinery of government. As a result the Department took on areas of work that cannot be assigned to its current objectives. The objectives have been reviewed as part of the SR2002 process, and revised objectives came into effect from April 2003. In the meantime staff associated with these new duties are reported separately.	75	33
	13,475	**12,382**

The 2002-03 numbers represent the average number of full-time equivalent persons employed except for the numbers of agency temporary staff, which have been included as at the balance sheet date. The numbers of agency staff have not previously been collected centrally and it has not been possible to obtain data for 1 April or for 2001-02.

The 2001-02 numbers have been restated to incorporate more accurate information.

2.2 Staff costs

The aggregate payroll costs of these persons were as follows:

Administration:	2002-03				2001-02 As restated
	Total	Officials	Ministers	Special Advisers	Total
	£000	£000	£000	£000	£000
Wages and salaries	243,884	243,640	151	93	220,666
Social security costs	13,642	13,619	13	10	13,255
Other pension costs	28,652	28,652	-	-	26,051
Sub-total	**286,178**	**285,911**	**164**	**103**	**259,972**
Inward secondments	(70)	(70)	-	-	-
Total	**286,108**	**285,841**	**164**	**103**	**259,972**
Less recoveries in respect of outward secondments	(37)	(37)	-	-	-
Total net costs	**286,071**	**285,804**	**164**	**103**	**259,972**

Wages and salaries include £16.631m (2001-02 £13.227m) relating to agency staff costs. Agency staff costs were previously reported in Note 3 and for comparative purposes the prior year figures have been restated. This change has had no effect on the overall financial position for 2001-02.

Another new requirement for 2002-03 is to disclose the costs and recoveries for staff seconded out of or into the Department. The information cannot be obtained retrospectively for 2001-02. The negative expenditure on inward secondments is the result of an over accrual in March 2002.

2.3 Ministers and senior managers

The salary, pension entitlements and the value of any taxable benefits in kind of the Ministers and senior managers of the Department were as follows:

2002-03	Age	Ministerial salary received	Real increase in pension at age 65	Total accrued pension at age 65 at 31 March 2003	Benefits in kind (rounded to the nearest £100)
	Years	£000	£000	£000	
Lord Irvine of Lairg *Lord Chancellor*	62	155-160	-	-	-
Baroness Scotland of Asthal QC *Parliamentary Secretary*	47	90-95	0.0-2.5	0.0-5.0	-
Rosie Winterton MP *Parliamentary Secretary*	44	25-30	0.0-2.5	0.0-5.0	-
Yvette Cooper MP *Parliamentary Secretary (from 29 May 2002)*	34	25-30	0.0-2.5	0.0-5.0	-

2002-03 is the first year in which salary and pension details for Ministers have been disclosed. Comparatives for 2001-02 are not therefore available.

The Department has been unable to contact Michael Wills MP and has therefore been unable to obtain permission to disclose his salary and pension details for the period to 29 May 2002.

As the House of Commons or House of Lords and not the Department meets the Exchequer contribution to the cost of pension provision for Ministers, the pension details are included on a 'for information' basis.

Pension benefits to Ministers are provided by the Ministerial Pension Scheme (MPS) which is part of the Parliamentary Contributory Pension Fund (PCPF) for Members of Parliament. The MPS provides benefits on a 'final salary' basis with a 1/50th accrual rate taking account of all service as a Minister. Benefits are payable on retirement from ministerial office on or after age 65, or on the payment of benefits under the main PCPF scheme. Members pay contributions of 6% of their ministerial salary. There is also an employer contribution of 7.9% of the ministerial salary, paid by the Exchequer. In the event of retirement because of serious ill health, the MPS pension is brought into payment immediately. On death, pensions are payable to the surviving spouse at a rate of five-eighths of the Minister's pension. On death in service the MPS provides for a lump sum gratuity of three times the ministerial salary. Pensions increase in payment in line with changes in the Retail Prices Index. On retirement, it is possible to commute part of the pension for a lump sum.

This presentation is based on payments made by the Department and thus recorded in these accounts. In respect of Ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration. The salary for their services as an MP (£55,118: 2001-02 £51,822) and various allowances to which they are entitled are borne centrally. However, the arrangement for Ministers of the House of Lords is different in that they do not receive a salary but rather an additional remuneration which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

The Lord Chancellor, in his role as head of the judiciary, is paid by the Consolidated Fund and not directly by the Department. As a result, his salary is disclosed with Payroll costs of the judiciary (Note 2.5) and not, with other Ministers, in Staff costs (Note 2.2). His salary, in his role as Speaker, is met by the House of Lords and is not included in these accounts.

2002-03	Age Years	Salary £000	Real increase in pension at age 60 £000	Total accrued pension at age 60 at 31 March 2003 £000	Benefits in kind (rounded to the nearest £100)
Officials					
Sir Hayden Phillips *Permanent Secretary*	60	145-150	2.5-5.0	60-65	£8,800
Ian Magee *Chief Executive of Operations*	56	120-125	2.5-5.0	40-45	£3,200
Jonathan Spencer *Director General; Clients and Policy*	54	110-115	0-2.5	35-40	-
Simon Ball # *Director General; Finance*	42	25-30	0-2.5	0-5	-
John Lyon *Director General; Legal and Judicial Services*	54	10-15	2.5-5.0	45-50	-
Jenny Williams *Director General; Judicial Group*	54	90-95	2.5-5.0	40-45	-
Jenny Rowe *Director; Corporate Services*	47	70-75	0-2.5	25-30	-
Paul Jenkins *Director; Legal Advisors Group*	48	80-85	2.5-5.0	25-30	-
Allan Percival *Director; Communications*	52	65-70	0-2.5	25-30	-
Dave Nooney # *Director; Modernising Government*	57	75-80	0-2.5	40-45	-
Trevor Hall *Non executive Director*	60	20-25	-	-	-

member opted to join the premium pension scheme and pension details assume maximum commutation of pension for lump sum

Simon Ball is employed on a fixed term contract. His contract is due to expire on 20 January 2005.

Trevor Hall, who is a non-executive director, received remuneration of £23,531. This includes payment for his role as non-executive director as well as his role as equality and diversity advisor to the Permanent Secretary. Patrick Macdougall, who was a non-executive director until 29 January 2003, received fees of £3,600 (2001-02 £5,100).

Where a director has joined or left the Corporate Board during the year their salary reflects only that which they received whilst a member of the Board. Where they were a member of the Board for only part of the year but have been employed by the Department throughout, their annual salary has been reported on a 'days served' basis. Accrued pension represents the director's total future entitlement to benefits payable from the Civil Service pension schemes based on reckonable service at 31 March. No adjustment has been made for service in other departments or whilst not a member of the Board. In 2001-02 and earlier years, annual salary was disclosed regardless of time served on the Board during the year. No attempt has been made to restate the 2001-02 disclosure below.

2001-02	Age Years	Salary £000	Real increase in pension at age 60 £000	Total accrued pension at age 60 at 31 March 2003 £000	Benefits in kind (rounded to the nearest £100)
Officials					
Sir Hayden Phillips *Permanent Secretary*	59	135-140	2.5-5.0	55-60	£8,600
Ian Magee *Chief Executive*	55	105-110	2.5-5.0	40-45	£2,600
Jonathan Spencer *Director General; Policy*	53	100-105	5.0-7.5	30-35	-
Joan MacNaughton *Director General; Policy*	51	100-105	2.5-5.0	35-40	-
Jenny Williams *Director General; Judicial Group*	53	100-105	2.5-5.0	35-40	-
Jenny Rowe *Director; Corporate Services*	46	75-80	0-2.5	20-25	-
Paul Jenkins *Director; Legal Advisors Group*	47	95-100	0-2.5	25-30	-
Allan Percival *Director; Communications*	51	75-80	0-2.5	25-30	-
Dave Nooney *Director; Modernising Government*	56	85-90	0-2.5	40-45	-

Salary

Salary includes gross salary, performance pay or bonuses, overtime, reserved rights to London Weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation.

Pension

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (**classic, premium** and **classic plus**). New entrants after 1 October 2002 may choose between membership of **premium** or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (**partnership pension account**).

(a) Classic scheme

Benefits accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5% of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

(b) Premium scheme

Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purpose of pension disclosure the tables assume maximum commutation. Members pay 3.5% of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

(c) Classic plus

This is essentially a variation of **premium**, but with benefits in respect of service before 1 October 2002 calculated broadly as per **classic**.

Pensions payable under **classic, premium** and **classic plus** are increased in line with the Retail Prices Index.

(d) Partnership pension account

This is a stakeholder-type arrangement where the employer pays a basic contribution between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3% (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25% of the fund as a lump sum.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. Sir Hayden Phillips had the use of a car provided by the Government Car Service. Ian Magee had the private use of an allocated car in the circumstances permitted by the Civil Service Management Code.

The information given above relates to the Ministers and senior managers of the Department. Equivalent information relating to the Department's Supply-financed Agencies is given in their separate accounts.

2.4 Superannuation scheme

The PCSPS is an unfunded multi employer defined benefit scheme but the Department is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 1999. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation (http://www.civilservice-pensions.gov.uk).

For 2002-03 normal employer contributions of £28.652m were payable to the PCSPS (2001-02 £26.051m) at one of four rates in the range 12% to 18.5% of pensionable pay. Rates will remain the same next year, subject to revalorisation of the salary bands. Employer contribution rates are to be reviewed every four years following a scheme valuation by the Government Actuary's Department. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees joining the Department after 1 October 2002 could opt to open a partnership pension account or a stakeholder pension with an employer contribution.

Employers' contributions of £1,357 were paid to one or more of a panel of four appointed stakeholder pension providers. In addition, employer contributions of £81 were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

2.5 Payroll costs of the judiciary

Members of the judiciary are independent of the Department. Their payroll costs are met either from the Consolidated Fund (senior judiciary) or by the Department. All payroll costs of the judiciary are included in these accounts regardless of who meets those costs.

Judicial:	2002-03			2001-02
	Total	Paid from voted resources	Paid from Consolidated Fund	Total
	£000	£000	£000	£000
Wages and salaries	188,607	92,759	95,848	173,850
Social security costs	19,669	9,533	10,136	18,036
Other pension costs:				
actual	72	72	-	122
notional	43,202	14,927	28,275	40,085
	251,550	**117,291**	**134,259**	**232,093**

2.6 Judicial superannuation scheme

Salary and social security costs met directly from the Consolidated Fund are not part of the Department's voted expenditure but are relevant costs for resource accounting purposes. The pension costs of £28.275m (2001-02 £26.462m) are calculated using a superannuation rate of 29.5% (2001-02 29.5%). This rate was supplied by the Government Actuary's Department.

Notional other pension costs paid from voted resources of £14.927m (2001-02 £13.623m) are based on a contribution rate of 28.5% (2001-02 28.5%) supplied by the Government Actuary's Department.

The Department has separate pension schemes for the Law Commissioners and the Immigration Adjudicators. The value of the required fund is calculated by the Government Actuary's Department on the same basis as for the PCSPS and provisions made to maintain the fund at the required level.

3 Other administration costs

	2002-03		2001-02 As restated	
	£000	£000	£000	£000
Rentals under operating leases:				
property rents	39,710		32,214	
hire of plant and machinery	1,732		1,382	
other operating leases	85		101	
		41,527		33,697
Finance charges on leased assets		13		88
PFI service charges:				
off-balance sheet contracts		31,682		25,964
on-balance sheet contracts		30,741		16,891
Research and development expenditure		881		414
Staff training and development costs		3,914		3,156
Travel, subsistence and hospitality		4,838		4,276
Accommodation, maintenance and utilities		93,326		82,382
Non-cash costs:				
depreciation and amortisation of fixed assets				
civil estate	35,403		32,981	
other tangible fixed assets	7,573		10,550	
downward revaluation of assets below depreciated historic cost	9,422		392	
loss on disposal of fixed assets	729		2,504	
PFI contracts deferred benefit	15,335		237	
Increase in provisions	2,298		861	
(decrease)/increase in bad debt provision	41		40	
LIBRA adjustment	2,396		-	
cost of capital				
civil estate	89,755		82,931	
other	(25,149)		(19,940)	
external auditors' remuneration and expenses	376		375	
		138,179		110,931
Other expenditure		104,634		74,401
		449,735		**352,200**

The Department is not able to split the cost of capital charge between administration and programme. The charge is recognised in full as an administration cost.

The cost of employing agency contract staff is now reported in Note 2.2 Staff costs. These costs were previously reported as Other administration costs and for comparative purposes the prior year figures have been restated. This change has had no effect on the overall financial position for 2001-02.

4 Net programme costs

	2002-03		2001-02	
	£000	£000	£000	£000
Current grants and other current expenditure:				
grant to Legal Services Commission in respect of CLS and CDS	1,344,303		1,244,468	
grant to Local Authorities in respect of magistrates' courts	318,630		317,552	
grant to Legal Services Commission: administration	72,337		69,289	
other grants in aid	100,452		93,764	
other CDS expenditure	567,973		474,113	
non-cash cost – increase in provision for CDS	75,934		49,447	
non-cash cost – increase in bad debt provision	370		154	
		2,479,999		2,248,787
Capital grants:				
grant to Local Authorities in respect of magistrates' courts	35,071		26,280	
Legal Services Commission	1,085		1,061	
		36,156		27,341
Other disbursements:				
judicial travel, subsistence and hospitality	5,644		6,282	
other judicial costs	14,494		11,249	
juror costs	40,105		39,638	
court reporting	7,353		7,108	
costs from central funds	39,535		48,971	
other expenditure	15,194		8,334	
non-cash cost – increase in pension provision	184		1,399	
		122,509		122,981
		2,638,664		2,399,109
Less: programme income		(393,725)		(338,679)
Judicial salaries (see Note 2.5)		251,550		232,093
		2,496,489		**2,292,523**

5 Income and Appropriations in Aid

Operating income not appropriated-in-aid (i.e. transferred to the Consolidated Fund) is analysed for resource budget purposes between that which is included in public expenditure and that which is not. In 2002-03, all operating income not classified as A-in-A was within public expenditure.

5.1 Net resource outturn (Schedule 1)

	2002-03	2001-02
	£000	£000
Appropriated in Aid	398,731	350,550
	398,731	**350,550**

5.2 Operating Cost Statement (Schedule 2)

	2002-03	2001-02
	£000	£000
Schedule 1 (see Note 5.1 above)	398,731	350,550
Machinery of Government transfer of functions: payable to the Consolidated Fund	-	2,340
Machinery of Government transfer of Estimate cover	-	(8,639)
Payable to the Consolidated Fund	3,884	1,596
	402,615	**345,847**

Operating income can be further analysed as follows:

	2002-03		2001-02	
	£000	£000	£000	£000
Administration:				
Allowable within admin. Cost limits		8,890		7,168
Programme:				
contributions from legally aided defendants	136		158	
other fees and charges	393,589		338,521	
		393,725		338,679
Operating income for schedule 2		**402,615**		**345,847**

Under the new Criminal Defence Service, any contribution from defendants towards the cost of representation is the subject of a Recovery of Defence Costs Order. Income received under such orders is brought to account by the Legal Services Commission. The contributions from legally aided defendants shown above represent residual income streams from the old scheme.

Other fees and charges include £391.488m from external customers (2001-02 £330.759m) and £2.101m from other government departments (2001-02 £7.762m).

Included in Administration income is rental income from public Agencies totalling £0.445m (2001-02 £0.193m) and rental income from non-government bodies totalling £0.102m (2001-02 £0.313m). Rental income comprises amounts paid by minor occupiers of the Court estate.

5.3 Fees and charges

Of total income received, the following relates to services provided to external and public sector customers on a full or partial cost recovery basis:

	2002-03			2001-02		
	Income	Full costs	Surplus/ (Deficit)	Income	Full cost	Surplus/ (Deficit)
	£000	£000	£000	£000	£000	£000
Court Service						
Civil business	319,577	396,734	(77,157)	314,306	378,532	(64,226)
Lands Tribunal	211	544	(333)	218	569	(351)
Court Funds Office	7,748	7,748	-	5,551	5,551	-
Public Guardianship Office	9,896	22,100	(12,204)	8,936	20,801	(11,865)
Official Solicitor and Public Trustee						
Estates	230	1,238	(1,008)	405	1,319	(914)
Litigation	441	2,722	(2,281)	510	2,801	(2,291)
Trust	2,713	5,609	(2,896)	3,169	5,747	(2,578)
	340,816	**436,695**	**(95,879)**	**333,095**	**415,320**	**(82,225)**

The Department has recently re-focussed its work on fees. A new Programme Board has been created, with representation from both the Corporate Board and the senior judiciary, to look at ways of correcting the current shortfall on civil court fees. A draft delivery plan is expected by 30 September.

Further information regarding fee targets, rates achieved and subsidies are provided in the relevant body's published reports and accounts.

6 Administration cost limit

The outturn within the administration costs control regime shown against administration cost limit is as follows:

	2002-03		2001-02	
	Outturn	Limits	Outturn	Limits
	£000	£000	£000	£000
Request for Resources	742,193	799,889	613,031	642,126
Total within administration cost control	**742,193**	**799,889**	**613,031**	**642,126**
Administration expenditure excluded from administration cost limit	(15,277)		(8,027)	
Administration income allowable within administration cost limit	8,890		7,168	
Total administration outturn (Note 8)	**735,806**		**612,172**	

7 Reconciliation of net operating cost to net resource outturn

	2002-03	2001-02
	£000	£000
Net operating cost	**3,223,405**	**2,897,527**
Add Consolidated Fund Extra Receipts (CFERs) allowable as operating income	3,884	1,596
Add Machinery of Government CFERs	-	2,340
Less non-Supply expenditure	(134,259)	(125,789)
Less Machinery of Government transfer of Estimate cover	-	(8,639)
Less HM Land Registry: Capital Modernisation Fund (deemed as non-operating costs for Parliamentary control purposes)	(1,100)	-
Net resource outturn	**3,091,930**	**2,767,035**

Net operating cost is the total of expenditure and income appearing in the Operating Cost Statement (Schedule 2). Net resource outturn is the total of those elements of expenditure and income that are subject to Parliamentary approval and included in the Department's Supply Estimate. The outturn against the Estimate is shown in the Summary of Resource Outturn (Schedule 1).

8 Analysis of resource outturn by function and reconciliation to Operating Cost Statement

	2002-03 Outturn							Difference
	Admin	Other current	Grants	Gross resource expenditure	A-in-A	Net total	Estimate	Outturn and Estimate
	£000	£000	£000	£000	£000	£000	£000	£000
Request for resources								
HQ and associated offices	147,531	11,063	6,057	164,651	(12,720)	151,931	165,415	13,484
Court Service	590,930	186,428	-	777,358	(331,350)	446,008	495,598	49,590
Public Guardianship Office	24,707	210	-	24,917	(10,846)	14,071	16,833	2,762
Criminal Defence Service:								
grant to LSC	-	-	527,000	527,000	-	527,000	527,428	428
other expenditure	(27,362)	644,302	-	616,940	(136)	616,804	602,817	(13,987)
Community Legal Service	-	-	817,303	817,303	-	817,303	781,600	(35,703)
Legal Services Commission:								
administration	-	-	73,422	73,422	-	73,422	73,725	303
Costs from central funds	-	39,535	-	39,535	-	39,535	52,555	13,020
Magistrates' courts grants	-	-	337,295	337,295	(43,679)	293,616	298,847	5,231
CAFCASS	-	-	81,769	81,769	-	81,769	80,596	(1,173)
Information Commissioner's Office	-	-	12,626	12,626	-	12,626	12,626	-
Payment from ODPM for Machinery of Government	-	-	-	-	-	-	(21)	(21)
Magistrates' courts grants on loan charges	-	-	16,406	16,406	-	16,406	16,500	94
Invest To Save	-	1,439	-	1,439	-	1,439	1,439	-
Resource Outturn	**735,806**	**882,977**	**1,871,878**	**3,490,661**	**(398,731)**	**3,091,930**	**3,125,958**	**34,028**
Non-Supply expenditure				134,259	-	134,259		
Non A-in-A operating income				-	(3,884)	(3,884)		
HM Land Registry: Capital Modernisation Fund				1,100	-	1,100		
Net operating cost				**3,626,020**	**(402,615)**	**3,223,405**		

Functions represent the disaggregation of requests for resources for control purposes and Parliamentary approval. They may not correspond to Departmental objectives, which in turn reflect a disaggregation of Departmental aims for the management of activities (For analysis of A-in-A, see Note 5).

9 Analysis of net operating cost by spending body

This analyses funding by the Department to the relevant spending body.

	2002-03		2001-02	
	Budget	Outturn	Budget	Outturn
	£000	£000	£000	£000
Spending body				
Core Department	789,464	753,582	686,843	615,389
Court Service	580,105	587,808	427,695	519,245
Public Guardianship Office	16,833	15,094	12,773	16,265
Non-departmental public bodies	1,517,074	1,512,120	1,389,899	1,402,796
Local Authorities	315,347	354,801	352,566	343,832
Net operating cost	**3,218,823**	**3,223,405**	**2,869,776**	**2,897,527**

10 Reconciliation of fixed asset additions to capital expenditure

	2002-03		2001-02	
	Capital expenditure	A-in-A	Capital expenditure	A-in-A
	£000	£000	£000	£000
Net book value	26,830	(4,923)	39,525	(2,814)
Prior year	(2,229)	-	(2,588)	-
Excess non-operating income due to Consolidated Fund	-	3,913		
Finance lease	1,044	-	(514)	-
Schedule 1	**25,645**	**(1,010)**	**36,423**	**(2,814)**
Accruals	(3,994)	-	(899)	-
Excess non-operating income due to Consolidated Fund	-	(3,913)		
Loss on disposal	-	729	-	2,504
Schedule 4	**21,651**	**(4,194)**	**35,524**	**(310)**

11 Tangible fixed assets

	Land & Buildings excluding Dwellings	Dwellings	Information Technology	Plant & Machinery	Furniture & Fittings	Payments on Account & Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation							
At 1 April 2002	1,504,445	12,566	43,166	21,682	35,887	25,581	1,643,327
Additions	1,184	-	6,640	2,749	3,137	13,120	26,830
Disposals	(767)	-	(6,263)	(3,294)	(452)	(1,713)	(12,489)
Revaluation	34,949	2,652	(6,998)	275	218	-	31,096
Reclassification	20,602	-	(16)	223	(6)	(20,803)	-
At 31 March 2003	**1,560,413**	**15,218**	**36,529**	**21,635**	**38,784**	**16,185**	**1,688,764**
Depreciation							
At 1 April 2002	45,000	286	17,722	15,677	13,861	-	92,546
Charged in year	35,188	215	2,036	2,740	2,797	-	42,976
Disposals	(22)	-	(4,628)	(2,682)	(234)	-	(7,566)
Revaluation	(22,105)	5	(206)	78	(757)	-	(22,985)
Reclassification	-	-	(6)	6	-	-	-
At 31 March 2003	**58,061**	**506**	**14,918**	**15,819**	**15,667**	**-**	**104,971**
Net book value:							
At 31 March 2003	**1,502,352**	**14,712**	**21,611**	**5,816**	**23,117**	**16,185**	**1,583,793**
At 1 April 2002	**1,459,445**	**12,280**	**25,444**	**6,005**	**22,026**	**25,581**	**1,550,781**

HM Treasury required that the Department's assets be analysed by different categories from those of earlier years. Land and buildings, both freehold and leasehold, are now categorised as 'dwellings' or 'non-dwellings'. Information Technology is a new category that includes computer and telephone systems. Both were previously reported as plant, equipment and computers. Cars are now categorised as Transport Equipment. However the net book value of the Department's owned or leased Transport Equipment is not considered material and these assets are now included within Plant & Machinery.

In 2002-03 the rolling programme of professional revaluation covered 41% by value of all property assets. The last professional valuation of all the property assets was carried out by the valuation office agency in June 2000.

The value of freehold land included in Land & Buildings excluding Dwellings is £267.420m (2001-02 £260.796m).

The PGO considers Stewart House to be surplus to requirements, after the relocation to Archway Tower and therefore it is valued on the basis of open market value, less directly attributable selling costs, at £15.000m and is not depreciated.

Included within the net book value of Information Technology is £0.019m (2001-02 £0.907m) relating to assets leased under finance agreements. Included within the depreciation charge for the year is an amount of £0.274m (2001-02 £0.642m) relating to these leased assets.

Also included in Information Technology are two assets representing the capitalised value of payments made under the CCS and LIBRA PFI contracts, which under FRS 5 are deemed to be assets of the Department. Their net book values are, for CCS, £3.959m (2001-02 £5.335m) and, for LIBRA, £10.187m (2001-02 £14.642m). Included within the depreciation charge for the year is £1.991m (2001-02 £1.375m) relating to CCS and nil (2001-02 £1.365m) in respect of LIBRA.

The majority of the IT equipment used by the Department is provided by private sector suppliers through contracts under the Private Finance Initiative. Further details on PFI contracts are disclosed in Note 22.

There have been downward revaluations of certain categories of Land and Buildings, Information Technology, Plant & Machinery and Furniture & Fittings to below depreciated historic cost. The total diminution in value of £9.422m (2001-02 £0.392m) has been charged to the Operating Cost Statement.

12 Non cash and notional costs

The analysis of non-cash costs for Schedule 1 excludes those costs that fall directly to the Consolidated Fund.

12.1 Schedule 1

	2002-03	2001-02
	£000	£000
Notional pension costs	14,927	13,623
Depreciation	42,976	43,531
Downward revaluation of assets below depreciated historic cost	9,422	392
PFI contracts deferred benefit	15,335	237
Increase in provisions (administration)	2,298	861
Increase in provisions (programme)	76,118	50,846
Movement in bad debt provision (administration)	41	40
Movement in bad debt provision (programme)	370	154
LIBRA adjustment	2,396	-
Cost of capital	64,606	62,991
External auditors' remuneration and expenses	376	375
	228,865	**173,050**

12.2 Schedule 4

	2002-03	2001-02
	£000	£000
Schedule 1 (see note 12.1 above)	228,865	173,050
Judicial salaries paid from the Consolidated Fund	134,259	125,789
Loss on disposal of fixed assets	729	2,504
	363,853	**301,343**

13 Movements in working capital other than cash

The analysis of working capital for Schedule 1 includes accruals adjustments related to expenditure and income chargeable to the Department's Estimates.

13.1 Schedule 1

	2002-03	2001-02
	£000	£000
Increase in debtors	30,227	5,050
Increase in creditors	(11,402)	(30,504)
Less: Increase/(Decrease) in Long term creditors	(1,183)	(328)
	17,642	**(25,782)**

13.2 Schedule 4

	2002-03	2001-02
	£000	£000
Increase/(Decrease) in debtors	30,180	(21,529)
Increase in creditors	(7,412)	(22,904)
	22,768	**(44,433)**

13.3 Reconciliation to balance sheet

	2002-03	2001-02
	£000	£000
Increase/(Decrease) in debtors	21,315	(20,400)
Adjusted for:		
PFI contracts deferred benefit	15,335	237
Magistrates' courts fines and fees	(6,881)	(1,549)
Increase in bad debts provision	411	194
Other	-	(11)
Increase/(Decrease) in debtors for Schedule 4	**30,180**	**(21,529)**
Exclude movement on allowable CFERs receivable	47	3
Resource-based Supply transitional arrangements	-	26,576
Increase in debtors for Schedule 1	**30,227**	**5,050**
Increase in creditors	(83,685)	(42,896)
Adjusted for:		
Consolidated Fund creditors	51,050	(15,953)
CFERs	4,361	29,228
Amounts due to other government departments	9,467	-
Third party balances	7,216	7,285
PFI and obligations under finance leases	185	(1,467)
Fixed asset creditors	3,994	899
Increase in creditors for Schedule 4	**(7,412)**	**(22,904)**
Exclude movement on fixed asset creditors	(3,994)	(899)
Resource-based Supply transitional arrangements	-	(6,701)
Prior year CFER adjustment	4	-
Increase in creditors for Schedule 1	**(11,402)**	**(30,504)**

Movements in working capital other than cash were adjusted during 2001-02 for Schedule 1 purposes to recognise the transition to resource-based Supply. This adjustment was necessary because the balance due to the Consolidated Fund at 31 March 2001 was assessed on the basis of the 2000-01 Appropriation Account and the Assets and Liabilities Statement that accompanied it. The Department required the assets reported in that statement to settle its liability to the Consolidated Fund. They did not represent working capital available.

14 Debtors

	2002-03	2001-02
	£000	£000
Amounts falling due within one year:		
Trade debtors	3,400	4,502
VAT	11,141	10,844
Deposits and advances	1,340	1,285
Prepayments and accrued income	25,237	28,672
Prepayments - PFI contracts deferred benefit	2,467	859
Prefunding of early departure costs	213	442
Magistrates' courts fines and fees receivable	27,978	21,097
Other debtors	2,771	2,143
	74,547	**69,844**
Amounts falling due after one year:		
Deposits and advances	172	186
Prepayments	6,527	2,003
Prepayments - PFI contracts deferred benefit	18,707	6,392
Prefunding of early departure costs	158	371
	100,111	**78,796**

Trade debtors are shown net of a provision for doubtful debts of £0.676m (2001-02 £0.422m). Other debtors are shown net of a provision for doubtful debts of £0.123m (2001-02 £0.061m).

Included within Trade debtors is nil (2001-02 £0.047m) that will be due to the Consolidated Fund once the debts are collected. Of magistrates' courts fines and fees receivable £25.088m (2001-02 £21.097m) is due to the Consolidated Fund and £2.890m (2001-02 nil) is due to other government departments under the various 'netting off' schemes.

The prepayments on the PFI contracts represent either the open market value of assets transferred to the PFI supplier or the amount by which upfront payments exceed the cost of fixed assets purchased. The prepayments will be released evenly over the lives of the contracts and therefore primarily fall due after one year.

The advances due after one year relate to relocation loans made to staff.

15 Cash at bank and in hand

	2002-03	2001-02
	£000	£000
Balance at 1 April 2002	102,094	63,205
Increase in cash	69,832	38,889
Balance at 31 March 2003	**171,926**	**102,094**
The following balances at 31 March are held at:		
Office of HM Paymaster General	168,116	101,126
Commercial banks and cash in hand	3,810	968
	171,926	**102,094**
The balance at 31 March comprises:		
Third party monies	76,493	69,277
Amounts issued from the Consolidated Fund but not spent at year end	53,739	2,689
CFERs received in current year and not yet paid over	30,506	30,128
CFERs received in prior years and not yet paid over	44	-
Amounts due to other government departments	11,144	-
	171,926	**102,094**

The balances of cash at bank and in hand include £76.493m (2001-02 £69.277m) held by the Department and its Agencies on behalf of third parties. This amount is also disclosed as a creditor.

16 Creditors

16.1 Amounts falling due within one year

	2002-03	2001-02
	£000	£000
Other taxation and social security	1,873	1,630
Trade and other creditors	31,671	38,132
Creditor for capital value of PFI contract	2,889	1,006
Obligations under finance leases	13	856
Accruals and deferred income	49,476	31,524
Cash balances payable to the Consolidated Fund:		
Consolidated Fund Extra Receipts received and receivable	55,637	51,276
Amounts issued from Supply but not spent at year end	53,739	2,689
Amounts due to other government departments	14,035	4,568
	209,333	**131,681**
Third party monies	76,493	69,277
	285,826	**200,958**

Third party balances represent monies owed by defendants that have been paid into the civil courts who then pass them on to the claimants.

16.2 Amounts falling due after one year

	2002-03	2001-02
	£000	£000
Obligations under finance leases (all within 1-2 years)	7	278
Creditor for capital value of PFI contract	-	584
Accruals and deferred income	-	328
	7	**1,190**

17 Provisions for liabilities and charges (see also Notes 1.6, 1.7 and 1.16)

	CDS	Early departure provison	By analogy pension	Other	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2002	429,949	3,303	3,933	281	437,466
Provided in year	75,934	(10)	184	2,196	78,304
Unwinding of discount	-	112	-	-	112
Utilised during the year	-	(1,137)	(257)	(58)	(1,452)
Balance at 31 March 2003	**505,883**	**2,268**	**3,860**	**2,419**	**514,430**

The £78.416m provided in year can be further analysed as follows:

	£000	£000
Administration costs (see Note 3)		
Early departure commitments	(10)	
Unwinding of discount	112	
Other	2,196	
		2,298
Programme costs (see Note 4)		
CDS	75,934	
By analogy pension commitments	184	
		76,118
		78,416

The provision for CDS is an attempt to quantify the Department's liability for work completed at 31 March 2003, but not yet billed. A large part of criminal work is paid for on an *ex post facto* basis. Payment is only triggered as a result of a bill being submitted.

18 Reconciliation of net operating cost to changes in general fund

	Note	2002-03 £000	2002-03 £000	2001-02 £000	2001-02 £000
Net operating cost for the year (Schedule 2)		(3,223,405)		(2,897,527)	
Income not appropriated in aid paid to the Consolidated Fund	5.2	(3,884)		(1,596)	
			(3,227,289)		**(2,899,123)**
Net Parliamentary funding (Supply)			2,968,551		2,590,993
Machinery of Government transfer of cash			-		7,299
Consolidated Fund creditor for cash unspent			(53,739)		13,861
Non-operating income not appropriated in aid paid or payable to the Consolidated Fund			(3,913)		-
Transfer realised element of revaluation reserve on depreciation	19		15,072		13,314
Transfer realised element of revaluation reserve on disposals	19		145		173
Other fixed asset adjustments			-		(120)
Notional costs					
Judicial salaries paid from the Consolidated Fund	2.5	134,259		125,789	
Notional superannuation for Judiciary	2.5	14,927		13,623	
Cost of capital charge	3	64,606		62,991	
External auditors' remuneration	3	376		375	
			214,168		202,778
Fixed Asset adjustments in respect of prior periods	10		2,229		2,588
Net decrease in general fund			**(84,776)**		**(68,237)**
General fund at 1 April 2002			541,850		610,087
General fund at 31 March 2003 (Schedule 3)			**457,074**		**541,850**

19 Revaluation reserve

	£000
Balance at 1 April 2002	550,207
Arising on revaluation during the year	63,503
Transferred to general fund in respect of realised element of revaluation reserve on depreciation	(15,072)
Transferred to general fund in respect of realised element of revaluation reserve on disposal	(145)
Balance at 31 March 2003	**598,493**

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

20 Capital commitments

Contracted capital commitments at 31 March 2003, for which no provision has been made, amounted to £6.126m (31 March 2002 £2.153m).

21 Commitments under leases

21.1 Operating leases

At 31 March 2003 the Department was committed to making payments during the following year in respect of operating leases expiring:

	2002-03		2001-02	
	Land and Buildings	Other	Land and Buildings	Other
	£000	£000	£000	£000
within one year	532	169	2,752	150
after one year but not more than five years	12,108	795	7,986	170
thereafter	28,002	42	21,648	935
	40,642	**1,006**	**32,386**	**1,255**

21.2 Finance leases

The Department's obligations under finance leases are as follows:

	2002-03	2001-02
	£000	£000
rentals due within one year	17	900
rentals due after one year but within five years	7	291
rentals due thereafter	-	-
	24	1,191
Less interest element	4	56
	20	**1,135**

22 Commitments under PFI contracts

The minimum commitments payable under non-cancellable PFI contracts during 2003-04, analysed by the period during which the commitment expires, are:

	2002-03							
	CCS	ARAMIS	Probate records	LIBRA	Exeter Combined Court	East Anglia Court	Sheffield Family Court	Total
	£000	£000	£000	£000	£000	£000	£000	£000
within 1 year	21,000	23,370	1,590	35,000	-	-	-	80,960
2 to 5 years	31,000	84,600	8,920	89,400	13,100	21,500	4,850	253,370
6 to 10 years	-	-	10,840	-	17,000	24,000	5,330	57,170
11 to 15 years	-	-	13,230	-	19,500	26,500	5,800	65,030
16 to 20 years	-	-	16,120	-	22,000	29,000	6,300	73,420
21 to 25 years	-	-	5,330	-	24,500	31,500	6,800	68,130
	52,000	**107,970**	**56,030**	**124,400**	**96,100**	**132,500**	**29,080**	**598,080**

	2001-02				
	CCS	ARAMIS	Probate records	LIBRA	Total
	£000	£000	£000	£000	£000
within 1 year	21,030	24,349	1,530	56,200	103,109
2 to 5 years	13,980	91,726	6,730	110,800	223,236
6 to 10 years	-	-	10,040	-	10,040
11 to 15 years	-	-	12,220	-	12,220
16 to 20 years	-	-	14,890	-	14,890
21 to 25 years	-	-	6,820	-	6,820
	35,010	**116,075**	**52,230**	**167,000**	**370,315**

These amounts are exclusive of recoverable VAT.

The PFI commitments relate to contracts for the provision of financial and other services. The amounts shown assume payments due in 2003-04 are unchanged in future years. Future annual payments may in fact vary by unknown amounts in accordance with a formula based on operating requirements.

The Department has entered into seven PFI arrangements:

ARAMIS PFI Project with Liberata UK Limited (formerly CSL Group Limited) for the provision of accounting, management information and corporate IT services to the Court Service and LCD Headquarters. The nine-year contract was signed in December 1997. The majority of assets underlying the services provided are deemed to be off-balance sheet under FRS 5. The capital value of the contract is currently estimated to be £39.500m out of a total expected contract value of £180.000m. At the start of the contract certain IT assets owned by the Department transferred to Liberata. This created an initial prepayment of £0.413m, which the Department amortises over the life of the project. The outstanding balance is disclosed in the debtor's note.

Probate Records scheme with Hays Commercial Services Limited to provide storage and retrieval services. This contract was signed on 27 July 1999 for a period of 25 years. The assets underlying the services provided are deemed to be off-balance sheet under FRS 5. The capital value of the contract is estimated to be £10.900m out of a total expected contract value of £56.000m.

CCS (formerly LOCCS) PFI Project with Electronic Data Services (EDS) to supply IT services. The contract was signed on 30 September 1996 and covers the provision of computer systems, software development, support and maintenance for operational systems to the Court Service. The contract runs for seven years with a three-year extendable option. The majority of assets used in the provision of this contract are deemed to be on balance sheet under FRS 5. Some assets have also been provided under finance lease arrangements within the contract. The capital value of the contract is currently estimated to be £20.000m out of a total contract value of £210.000m. The costs have increased because of new initiatives to give electronic access to court-based facilities (Money Claims On Line), other modernisation projects (Xhibit, Juror), legislative requirements (Housing, Enforcement, Euro compliance), rollout of new infrastructure to the criminal courts and the three year contract extension. Disclosures regarding the assets and related liabilities are made in the appropriate notes.

The LIBRA project with Fujitsu Services (which includes ICL), is for the provision of IT services to the magistrates' courts. This contract came into effect in December 1998 and was set to run for 12 years. The ongoing service charges, expected to total £275.000m over the twelve years were to be the responsibility of the Magistrates' Courts Committees. These would be funded by a grant from the Department and were therefore not disclosed as a departmental commitment. A variation to the contract was signed in July 2002. Under this new arrangement, Fujitsu Services will continue to deliver the IT infrastructure and provide support until 2007 but the Department will meet most of the costs directly. This is a significant reduction in the length of the contract. The figures included above are based on the new contract which has an estimated capital value of £25.460m out of a total contract value of £232.000m. See also Note 30.

The PGO's MERIS contract has been re-assessed and is no longer deemed to be a PFI contract. The Department therefore reports its commitment under this non-cancellable contract as Other financial commitments.

Exeter – this project will provide a new courthouse comprising four criminal courts, one civil court and four District Judges hearing rooms. Accommodation for the Probate Registry and the Group Manager will also be included. The contract, with Enterprise Civic Buildings Ltd, was signed in November 2002 and will run for 30 years from completion of the building. The scheme has a capital value estimated to be £23.700m at net present value. At the end of the PFI term the building will revert to the Department at no cost.

East Anglia – this project will provide new court accommodation in East Anglia. Specifically, the project includes the provision of new Crown Court centres in Ipswich and Cambridge. The new accommodation is required to replace poor existing accommodation. Ipswich Crown Court is to consist of five criminal courtrooms and Cambridge of three. The contract, with Modern Courts East Anglia Ltd, was signed on 31 October 2002 and has a term of 25 years from the completion of the buildings. The scheme has a net present value of £40.000m. At the end of the PFI term the buildings in Ipswich and Cambridge will revert to the Department at no cost.

Sheffield – this project will provide a new Family Hearing Centre in Sheffield. The new hearing centre is required to enable the court to deal with increasing workload levels and provide more appropriate facilities for family hearings. The new hearing centre will consist of two family courtrooms and two hearing rooms and a training room which is capable of being converted into one large or two small hearing rooms. The contract, with Palecastle Ltd, was signed on 21 November 2002 and has a term of 25 years from completion of the building. The scheme has a net present value of £8.600m. At the end of the PFI term the Department has the option of acquiring the underlease at the lower of Net Book Value or £2.000m.

23 Other financial commitments

The Department has a further obligation under CDS in respect of the funding of proceedings in the higher criminal courts. A large part of criminal work is paid for on an *ex post facto* basis. Payment is only triggered as a result of a bill being submitted. The Department estimates its future commitments for work that will be completed after 31 March 2003 for cases that are ongoing to be £242.713m (2001-02 £191.976m).

The Department, via the PGO, has entered into a non-cancellable contract, the MERIS programme, with Logica CMG for the supply of a modern, automated case management system. The three year contract was signed on 25 March 2002. The minimum commitments payable under non-cancellable contracts (which are not leases or PFI contracts), analysed by the period during which the commitment expires, are:

	2002-03	2001-02
	£000	£000
within one year	475	2,880
after one year but within five years	705	1,180
thereafter	-	-
	1,180	**4,060**

These amounts are exclusive of VAT.

24 Contingent liabilities

24.1 Contingent liabilities disclosed under FRS 12

The Department has several small works of art on loan other than from the Government Art Collection.

The Department is still involved in a test case for compensation under the Human Rights Act. Legal costs are expected to exceed £0.050m even if the Department wins the case. Should it lose, there are 164 similar cases outstanding. The potential liability is estimated to be upwards of £0.500m in legal costs (administration) and £0.500m in compensation (programme).

The Department is involved in six cases before the Employment Tribunal. The likelihood of any material liability arising from any of these cases is low.

The PGO has recently reviewed the work of its Receivership Group. These reviews have identified issues which may result in the Agency incurring financial losses due to historical poor management practices. Where a reliable estimate could be made of the potential loss, a provision has been made. However, although the Agency does not anticipate any further losses, the risk remains that further liabilities may be identified before the project is completed.

The Legal Services Commission, an executive non-departmental public body, has responsibility for publicly funded legal cases. At any one time, there will be several million live cases and therefore a value for outstanding liabilities is arrived at through an estimation process. The Commission has included an estimated liability in their 2002-03 published Annual Report and Accounts amounting to £2,473.117m (2001-02 £2,397.489m).

The Commission has also reported in its 2002-03 accounts a deficit of £23.995m (2001-02 £11.143m) in its pension schemes.

The Department has a legal obligation under the Administration of Justice Act 1982 to make good any default that the Accountant General or manager of the common investment fund may be guilty of, with respect to any money, securities and effects for which they are responsible.

24.2 Contingent liabilities not required to be disclosed under FRS 12 but included for parliamentary reporting and accountability

The Department has not entered into any arrangements that require it to report separately to Parliament.

25 Related parties

The Lord Chancellor's Department is the parent of the Court Service and the PGO and sponsor of the Legal Services Commission, the Information Commissioner's Office and CAFCASS. Further the Department is accountable to Parliament for the operation of the magistrates' courts. All of these bodies are regarded as related parties with which the Lord Chancellor's Department has had various material transactions during the year.

In addition the Lord Chancellor's Department has had a small number of transactions with other government departments and other central government bodies.

Registry Trust Limited is a private company limited by guarantee with no share capital. It maintains, on behalf of the Lord Chancellor, the Register of County Court Judgements. In view of its role and its relationship with the Lord Chancellor, Registry Trust Limited is regarded as a related party.

None of the board members or other related parties has undertaken any material transactions with the Lord Chancellor's Department during the year.

26 Post balance sheet events

Several changes have occurred since the end of the financial year, which are non-adjusting events but which have an impact on future activities.

On 12 June 2003 the Government announced the creation of a new Department for Constitutional Affairs. The new Department incorporates most of the responsibilities of the former Lord Chancellor's Department, but with new arrangements for judicial appointments and anticipates an end to the previous role of the Lord Chancellor as a judge and Speaker of the House of Lords. Once these reforms are in place, the post of Lord

Chancellor will be abolished, putting the relationship between the executive, legislature and judiciary on a new footing.

New arrangements are also now being put in place for the conduct of Scottish and Welsh business. The Scotland and Wales Offices fall under the umbrella of the Department for Constitutional Affairs, together with the Under-Secretaries of State for Scotland and Wales. At Cabinet level, responsibility for the conduct of Scottish and Welsh business, and lead responsibility for the representation of Wales and Scotland within the Government and Parliament, lies with the Secretary of State for Transport (Scotland) and the Leader of the House of Commons (Wales), supported by the staff located within the new Department. These changes also see departmental responsibility for the Legal Secretariat to the Advocate General for Scotland and the Office of the Solicitor to the Advocate General for Scotland transfer to the Department for Constitutional Affairs.

At the same time the Government announced that responsibility for family and parenting law and support, including responsibility for CAFCASS, would pass to the Minister of State for children at the Department for Education and Skills.

From 1 April 2003 the Legal Services Commission assumed accountability for all Criminal Defence Service expenditure in the Crown Courts. The function of assessing and paying Crown Court bills (with the exception of cases conducted under individual case contracts) remains with the Court Service.

Also from 1 April 2003, the employer's pension costs associated with the payment of judicial salaries will become a cash cost to the Department. The Department will also fund the employer's superannuation costs of the senior judiciary whose salaries are met by the Consolidated Fund.

27 Resources by Departmental aim and objectives

Apportionment of overheads is by way of staff numbers and space utilised. Allocation by objective takes established management reports, considered management assumptions and then maps these to a full cost model. Smaller cost centres are apportioned through management review and reviews by central Finance Divisions.

The bulk of the Department's net assets are employed by the Court Service in pursuit of objectives one, four and five. The capital charge in respect of these assets has therefore been apportioned across these objectives.

Programme grants and other current expenditure, as reported in Note 4, have been allocated as follows:

	2002-03	2001-02
	£000	£000
Objective 1	1,638,673	1,508,703
Objective 2	78,823	86,234
Objective 3	366,936	319,562
Objective 4	40,479	37,630
Objective 5	350,559	325,415
Objective 6	15,877	15,212
	5,142	(233)
Net programme costs	**2,496,489**	**2,292,523**

28 Financial instruments

FRS 13, *Derivatives and Other Financial Instruments: Disclosures* requires disclosure of the role which financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments are financed, the Lord Chancellor's Department is not exposed to the degree of financial risk faced by business entities.

Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Department has no powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Department in undertaking its activities.

As permitted by FRS 13, debtors and creditors that mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity risk

The Department's net resource requirements are financed by resources voted annually by Parliament. It is not, therefore, exposed to significant liquidity risks.

Interest rate risk

The Department's financial assets and liabilities carry nil or fixed rates of interest. It is not, therefore, exposed to significant interest rate risk.

Foreign currency risk

Foreign currency income and expenditure are negligible.

29 Third party assets

The Department holds third party assets through its two Agencies, the Court Service and the PGO, and also through an associated office, the Official Solicitor and Public Trustee. Its current systems do not support full disclosure of third party assets but the Department is taking the necessary steps to address this.

Court Service

	31 March 2002	Gross inflows	Gross outflows	31 March 2003
	£000	£000	£000	£000
Third Party Monies	68,594	792,654	(785,695)	75,553

The Court Funds Office manages money held in court on behalf of clients who may: be involved in a civil legal action; be patients who, under the Court of Protection, are not able to manage their property and affairs; be children under the age of 18. These are non-agency assets and are not included in the accounts. The assets held at the balance sheet date, to which it was practical to ascribe monetary values, comprised cash and Common Investment Funds. These items, with their value as at 28 February 2003 are listed below:

- Cash - held and invested on behalf of the Accountant General of the Supreme Court through the National Debt Commissioners - £3,700.000m (2001-02 £3,000.000m).
- Common Investment Funds – administered on behalf of the Lord Chancellor by an appointed Manager. The beneficiaries have unit shares in the scheme. The schemes themselves consist of a balanced portfolio managed by the Manager in accordance with the investment strategy in force at the time - £27.400m (market value) (2001-02 £43.559m).

Further information is contained in the Funds in Court published White Paper Accounts, which are audited by the Comptroller and Auditor General and laid before Parliament.

Public Guardianship Office

The PGO handles the financial affairs and hence, assets, of those unable to do so through mental incapacity. The agency is required, under its Framework Document, to prepare stewardship accounts. It intends to produce "dry run" accounts for 2003-04, with those for 2004-05 being presented for external audit.

Official Solicitor and Public Trustee

The Official Solicitor (Estates)

The Official Solicitor (OS) administers estates and trusts as Administrator/Trustee of Last Resort. He might be called upon to manage an estate for someone entitled to a Grant of Administration but who is incapable of applying because of mental illness. He may also act as the administrator of the estate of a deceased person, to facilitate a claim being brought under the Inheritance Act. The OS might act as Judicial Trustee in disputes involving the trustees and/or beneficiaries, about the administration of an estate. The OS also manages a number of trust funds for children.

The Office is able to provide details of cash and deposits held on behalf of third parties for 2002-03, but comparative information is not available for 2001-02. The Office also holds non-cash assets on behalf of third parties, such as property and chattels, and is working towards full disclosure in respect of these for 2003-04.

	31 March 2003
	£000
Cash and deposits	15,372

The Public Trustee (Trust)

The Public Trustee (PT) acts as Executor or Trustee where he has been appointed under a Will or new Settlement. The PT may also be asked to administer the estate of an individual who has died intestate. He may be asked to take over existing trust or settlement, by the existing trustees or by Order of Court. The PT also administers certain pension, friendly society and other institutional funds.

	31 March 2003	31 March 2002
	£000	£000
Cash and Deposits		
Cash	23,304	24,512
Investments	205,000	285,042
Non Cash Assets		
Freehold Property	27,688	33,781
Leasehold Property	926	1,148
Chattels and other assets	1,212	1,393

30 LIBRA

The LIBRA project will provide magistrates' courts with modern office IT services, a national standard software application to support court work and a secure link to other parts of the criminal justice system. The original contract for provision of the IT services was signed with ICL (now Fujitsu Services) in December 1998 and was set to run for 12 years. A variation to this contract was signed in July 2002. Under the new arrangements Fujitsu Services will continue to deliver the IT infrastructure and office automation until 31 March 2007. The new contract includes an upgrade to the services delivered to date. Fujitsu Services will

not now be required to continue with the development of the specialised software. Instead a separate contract was let on 31 January 2003 with the Technologies Group Ltd to take forward the work to deliver the core software application. A systems integrator will then be appointed towards the end of 2003 to roll out and run the application.

Following the variation of the contract with Fujitsu Services, the Department commissioned an independent review to ensure that its accounting treatment of the contract was still appropriate under FRS 5 and HM Treasury's Technical Note No. 1 *How to Account for PFI Transactions.* The review recommended the creation of a capital asset of £25.467m, being the total capital expenditure expected to be incurred by Fujitsu Services, with a corresponding creditor. This asset was created with a capitalisation date of 1 April 2000 and will be depreciated over the period to 31 March 2005. A refresh of the technology will commence in 2004-05 and continue until the end of the contract on 31 March 2007. The costs of this refresh will be capitalised in 2005-06 and be fully written down by the end of the contract.

LIBRA Strategic Implementation System (LSIS) payments are used to write down the value of the creditor over time because these payments are considered to be analogous to the capital outlays and there are no specific capital streams in the contract. LSIS payments over and above those required to write down the creditor will be treated as prepayments. The prepayment will be released in two stages; firstly an amount equal to the cost of the technology refresh will be used to create this asset with the remainder being charged to the Operating Cost Statement over the life of the contract.

This revised treatment has had the following impact on the 2002-03 accounts. The Net Book Value of the existing LIBRA asset has been written down from £14.642m to £10.187m and an amount of £6.039m previously treated as a prepayment has been written back immediately. A further non-cash adjustment of £2.396m has been made to recognise the outstanding creditor balance at 31 March 2003.

The contracts with the Technologies Group Ltd and that still to be let for a systems integrator are not regarded as PFI contracts.

31 Machinery of Government changes and the transfer of functions

In May 2002 the Department took on such departmental responsibility as exists for the Electoral Commission and for policy on electoral law, referendums and party funding from what is now the Office of the Deputy Prime Minister (ODPM).

This resulted in the transfer of Estimate cover of £0.021m for 2002-03 in respect of non-statutory electoral expenses. The Department has not been able to ascertain the amount of actual expenditure incurred by the ODPM on these expenses in time to include it within these accounts. This transfer of function has therefore had no impact on the Department's net operating costs or its balance sheet.

32 Accountability notes

Losses statement

There were 322,345 (2001-02 241,865) cases involving losses totalling £48.402m (2001-02 £39.720m).

The statement includes an amount of £101,416 that has been written off as unrecoverable and an amount of £702,146 in respect of an unreconcilable suspense balance.

Special payments

There were 1,403 (2001-02 1,165) special payments totalling £1.145m (2001-02 £1.144m). These include one payment in excess of £100,000. This was a payment of £118,000 in settlement of a claim for unfair dismissal.

Fees remitted

There were 26,866 (2001-02 24,043) cases where fees were remitted. The total value was £2.754m (2001-02 £2.717m). These include one case in excess of £100,000. This was for £739,240 in respect of a withdrawal fee payable upon the transfer of a fund to new service providers.

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