



Legal Aid  
Agency


Legal Aid Agency  
**Annual Report and Accounts**  
**2013-14**





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# Legal Aid Agency **Annual Report and Accounts 2013-14**

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

Ordered by the House of Commons to be printed 24 June 2014.

## **OGL**

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Print 9781474105934

Web 9781474105941

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

ID 03061404 06/14

Printed on paper containing 75% recycled fibre content minimum

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# Chief Executive's statement

# Chief Executive's statement



I am pleased to introduce the first Annual Report and Accounts of the Legal Aid Agency (LAA). Our first year as the LAA has been one of improving our processes, while achieving sustained strong performance. Looking back over the last year I am proud of the organisation we have created together. We have worked hard with providers and our partners in the justice system to reduce our processing times, make efficiencies, maintaining high standards of stewardship of public funds, and we continue to drive down the costs of our administration.

Over the year, we have made further significant strides towards achieving our three Strategic Objectives (SO).

## **SO1: Improve casework to reduce cost, enhance control and give better customer service**

During the year, we have consistently met all our performance targets in processing applications and bills from providers and have significantly reduced the number of bills we reject. This has helped enhance the service providers receive. We have also continued to strengthen our financial management over the year, driving down errors and keeping them below 1% and produced our 2013-14 Accounts once again without qualification.

In addition, we have made progress in the delivery of our new Client and Cost Management System (CCMS), moving out of the pilot phase and into national roll out. This has involved working closely with providers and advocates to support them in using the system. We have monitored performance closely and engaged with providers, advocates and their representative bodies to consider feedback and opportunities for continuous improvement. In the coming year we will launch a number of new initiatives to make even more of our services digital by default.

## **SO2: Improve organisational capability to meet the challenges ahead, including developing and engaging our people**

Once again I have been impressed by the dedication of our staff, which has been the driving force behind our achievements this year. This was highlighted by their response to the surge in applications we received in the last days before the Legal Aid, Sentencing and Punishment of Offenders (LASPO) Act 2012 changes came into force in April 2013. Across the LAA, teams pulled together to ensure that we were able to continue to meet our service standards.

We value the wellbeing and development of our people. This year we have established such tools as Team Information Boards and web chats to keep staff informed, enable them to raise questions and obtain feedback. We have engendered a sense of common purpose by encouraging regular discussions across teams, improving senior management visibility, promoting good practice in performance management, and worked to publicise the range of development opportunities open to civil servants. Additionally, we have introduced a scheme where each member of our Senior Leadership Group mentors at least two members of staff. We will be putting even more of our energy into this area in 2014-15.



**SO3: Build and maintain strong partnerships to secure quality provision and contribute fully to wider justice and Government aims**

As an executive agency of the Ministry of Justice (MoJ) we are now at the heart of delivering MoJ's objective of a more effective, less costly, and more responsive justice system for the public. We began the year by completing the implementation of the Legal Aid Reforms (LAR) package on time and within budget and worked closely with MoJ colleagues on the Transforming Legal Aid proposals. These will deliver further substantial savings for the taxpayer.

At the same time we have continued to work hard to strengthen our relationships with providers and their representative bodies. We have been able to work together to tackle the common causes of bill rejection by the LAA. We have also been able to drive down the level of errors made in our payments and the eligibility of applications granted, and we have achieved this through working collaboratively with our providers.

Together we have achieved a large amount in the last year and have laid the foundations for a successful and resilient executive agency. In the year ahead, we will build on the success of 2013-14 and continue to improve the service we provide. We will do this through relentless focus on our three key strategic objectives and by moving the majority of our services online through the delivery of our change programmes.

It only remains for me to thank our staff for their hard work and dedication over the last year. I would also like to thank Owen Mapley, our Director of Finance and Performance who left the LAA in April 2014. Owen has been instrumental in building our financial and organisational capability as well as strengthening our Financial Management and Assurance Framework over

the last three years, and I am grateful for his contribution. Finally, I would like to thank all of the members of the LAA Board who have played a crucial role in establishing our new governance structure and providing oversight and guidance as we have taken our first steps as an executive agency.

**Matthew Coats**

Chief Executive and Accounting Officer  
of the Legal Aid Agency  
18 June 2014



# Strategic report

# About the Legal Aid Agency

This chapter reports on the LAA's purpose, its providers, its people, its senior management team, the main boards and committees in the LAA and the scrutiny through parliamentary procedures.

## **The LAA's purpose is to deliver legal aid efficiently and effectively as part of the justice system.**

The LAA works in partnership with legal providers and the wider MoJ to deliver this purpose. Its work is essential to the fair, efficient and effective operation of the civil, family and criminal justice systems. This purpose guides the LAA's planning and decision making and therefore ensures the organisation continues to develop in a way which enhances its ability to deliver this primary function.

The LAA is an executive agency of the MoJ and was created on 1 April 2013 as the successor to the Legal Services Commission (LSC) which was a Non Departmental Public Body (NDPB) and was abolished as part of the LASPO Act 2012. The LAA operates throughout England and Wales with its headquarters co-located with the MoJ in London.

The LAA maintains a regional contract management presence in order to be physically close to its provider base and other justice system partners. This is delivered by just over 100 contract managers. The LAA's Case Management function, delivered by around 850 staff, is led from three main locations: South Tyneside for civil and family, Nottingham for crime, and London for exceptional and high cost cases. Case Management and other functions are also undertaken in Birmingham, Brighton, Bristol, Cambridge, Cardiff, Chester, Leeds, Liverpool, Manchester and Reading. The Public Defender Service (PDS) provides services directly to the

public with a capacity to deliver anywhere in England and Wales.

The Lord Chancellor and the Secretary of State for Justice are accountable to Parliament for the LAA's activities and performance. In addition, within Wales, the LAA maintains close links with the Welsh Assembly Government, in recognition of the devolved administration.

The LAA works with a wide range of providers of legal services. These include solicitors, barristers, mediators, and legal advice services. Many of our legal aid providers are small and medium enterprises and include self-employed individuals, large firms of solicitors, not for profit organisations, and alternative business structures.

The LAA received voted funding from Parliament to dispense its duties and was reported in the MoJ's Supplementary Supply Estimate for 2013-14. This set out the budget for the Legal Aid Fund spend, split into Civil and Criminal Legal Aid, and an Administration budget. Additionally, on 1 April 2013 the budgetary and accounting responsibility for Central Funds transferred from within the MoJ to the LAA.

## **Civil Legal Aid**

Civil Legal Aid is available for cases involving an individual's life, liberty, physical safety and homelessness through legal advice, family mediation and representation in courts and some tribunals. This is possible where claimants meet the "means" and "merits" test and is available on a range of categories such as housing, debt, family or education problems.

Civil Legal Aid includes contracted solicitors, mediators, and advice agencies which provide civil and family legal advice. Civil Legal Aid also delivers a national advice line for England and Wales which

*About the Legal Aid Agency continued*

includes telephone and internet based services. We also contract with providers to deliver face to face civil legal aid services across a range of categories such as family and community care.

### **Criminal Legal Aid**

Criminal Legal Aid includes legal advice and representation to people being investigated or charged with a criminal offence. Legal aid is awarded in all criminal cases where the claimant meets the “means” test. Criminal Legal Aid manages the duty solicitor schemes for police stations and magistrates’ courts, which ensures that those who need advice and representation can see a solicitor. The LAA commissions legal aid in Crown Courts through the Litigator and Advocate Graduated Fee Schemes (LGFS/AGFS), as well as contract directly with providers through the High Cost Cases team. The LAA also funds legal aid cases in the higher courts such as the Court of Appeal and the UK Supreme Court. PDS provides criminal defence services directly to the public.

### **LAA Administration**

Costs of administering the legal aid schemes includes the cost of LAA employees, estate costs in relation to rent, rates and service charges of its properties, costs to HM Courts & Tribunals Service for processing criminal legal aid on behalf of the LAA, Information Technology (IT) costs and costs in relation to postage, training, travel and other areas of expenditure necessary to ensure effective administration of the Legal Aid Fund.

### **Central Funds**

Central Funds spend occurs under the terms of the Prosecution of Offences Act 1985, whereby acquitted defendants who have privately funded their legal representation, and private prosecutors,

may obtain from the Crown Court, in limited circumstances, an order to obtain their costs.

The prior year comparative financial information for Central Funds was included in the 2012-13 Financial Statements of the MoJ. Current year information is included in the LAA Financial Statements herein.

### **Change programmes**

The LAA’s first year as an executive agency has been marked by strong performance in operations and financial management, all of which has been delivered alongside a number of major change programmes and in partnership with providers and partners in the wider justice system.

The LAA’s three major change programmes are:

- Crime Change Programme (CCP) - The objective of this programme is to process all criminal legal aid applications and bills in a paperless and electronic way.
- Integrated Delivery Programme (IDP) – This programme is responsible for developing and rolling out CCMS which enables the LAA to grant legal aid, pay bills and recover debt electronically for civil certificated work.
- Transforming Legal Aid - Working with MoJ policy, the LAA has already begun to deliver reforms to criminal and civil legal aid services which are expected to deliver approximately an additional £215 million of savings by 2018-19. The LAA is charged with the task of implementing the Transforming Legal Aid proposals (LAT), working in collaboration with the legal profession to do this as effectively as possible. See page 23 for more detail.

# Our governance

## **Audit Committee**

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

The Audit Committee makes decisions on matters related to internal and external audit, corporate governance, anti-fraud policies, internal control and risk management. The Audit Committee also reviews internal audit reports, the National Audit Office (NAO) reports and other reviews of our work such as gateway reviews.

The Audit Committee meets four times a year. It also meets once a year to review the LAA Annual Report and Accounts.

## **LAA Board**

The LAA Board discusses key strategic matters, with the aim of ensuring the LAA fulfils its duties in relation to the operation of legal aid funding and achievement of corporate objectives.

The LAA Board generally meets ten times each year, once a month excluding August and December. There were also two LAA Board strategy sessions held during the year.

## **Executive Management Team**

The Executive Management Team reports to the Chief Executive, and looks after the day to day management of the LAA. The Executive Management Team meets weekly.

## **Parliamentary Scrutiny**

### **Public Accounts Committee (PAC)**

There was no direct scrutiny of the LAA undertaken by the PAC in 2013-14. The LAA continued to take action to respond to previous Committee reports including the Committee's recommendation from 2012 that the MoJ should set out a clear plan to reduce errors in legal aid payments. The LAA continues to improve its overall assurance framework and to make further progress in reducing the level of errors in legal aid payments.

The error rate reduced from 1.7% in 2011-12 to 0.7% in 2012-13 leading to the removal of the regularity qualification from the final year's Accounts of the LSC. The LAA has continued to maintain error rates below 1% throughout 2013-14.

### **Justice Committee**

There was no direct scrutiny of the LAA undertaken by the Justice Committee in 2013-14.

## Our governance continued

The following table shows the LAA's governance.

Table A: LAA's governance

	Gender M/F	LAA Board		Executive Management Team		Audit Committee	
		Member	Invitee	Member	Invitee	Member	Invitee
<b>Executive</b>							
Matthew Coats, LAA Chief Executive <i>Chair of the Board</i>	M	✓		✓			✓
Hugh Barrett <i>Director of Commissioning and Strategy</i>	M	✓		✓			
Owen Mapley <i>Director of Finance and Performance (Left 10 April 2014)</i>	M	✓		✓			✓
Shaun McNally CBE <i>Director of Case Management</i>	M	✓		✓			
Ruth Wayte <i>Principal Legal Advisor to the LAA</i>	F	✓		✓			
Ann Beasley* <i>Director General of MoJ Finance</i>	F	✓					
Damon Norville <i>Director for Business Change and Information Technology (left 13 May 2013)</i>	M		✓	✓			
<i>Head of Information Technology, Digital and Change (from 2 December 2013)</i>	M		✓	✓			
Sandra Corrigan <i>Director of Human Resources and Organisational Development (Left 31 July 2013)</i>	F		✓	✓			
<i>HR Director (from 1 August 2013)</i>	F		✓	✓			
<i>MoJ Director of Legal Aid Policy</i>	F		✓				
<i>Head of Corporate Services</i>	F		✓	✓			
<b>Non Executive</b>							
John Grosvenor (Finance)** <i>Chair of the Audit Committee</i>	M	✓				✓	
Andrew Lockley (Legal)**	M	✓				✓	
Eric Gregory (Commercial)**	M	✓				✓	

\* Ann Beasley, Director General of MoJ Finance also attended the LAA Board. Details of Ann's remuneration are disclosed in the MoJ Annual Report and Accounts 2013-14 <https://www.gov.uk/government/publications>.

\*\* Their specialist knowledge and expertise of the financial, commercial and legal sectors respectively help the LAA Board exercise its duties in these priority areas.

# Our year in focus

This chapter reports on the main developments of the year and sets out how we performed against our three strategic objectives. It also includes examples of how we have played a part in Civil Service Reform and its four key themes: more digital; more skilled; improved policy making; unified, open and accountable.

## Transition to executive agency

The change from a NDPB to an executive agency of the MoJ has been a major change for both our operations and our people. In 2013-14, we successfully delivered:

- Benefits of £7 million through rationalising our estates, sharing services with the MoJ including Human Resources (HR) and legal, and savings in Value Added Tax (VAT) for payments within the MoJ
- Consolidating teams into one London office at Petty France, involving the closure of our London Exchange Tower offices. This has completed a consolidation process which has delivered efficiency savings in our estates portfolio and has co-located us with civil service colleagues.

We have been working increasingly closely with the Civil Service and MoJ in recent years and we are now fully integrated into both.

## Our achievements in 2013-14

The LAA has continued to deliver against our commitments in the 2013-14 Business Plan and against its three strategic objectives. The main achievements of this year include:

- Successful transition to an executive agency and sharing services with the MoJ enabling us to realise efficiencies
- Strong performance across all Key Performance Indicators (KPIs) – detailed in the Our performance section on page 18
- Effective financial control resulting in living within reduced budgets for the year achieved through relentless focus and grip on strong financial management
- Reducing the number of errors in granting applications and paying bills by working with providers and continuously improving the LAA's processes
- Reducing levels of bill rejects through innovative ways of engaging with providers and challenging targets to reduce civil and crime bill rejects
- Tackling the surge in applications in the last days before the LASPO Act 2012 changes came into force through teamwork, collaboration and dedication by staff across the LAA
- Full engagement with the MoJ, its partners in the justice system and the legal profession on "Transforming Legal Aid: Delivering a more credible and efficient system".

All of this has been achieved with improved levels of staff engagement results. There was a 3% increase in our staff engagement score to 60%. The LAA has also managed capacity whilst improving capability across the organisation and building strong leadership and embedding common purpose.







## Our performance against our three strategic objectives

During 2013-14, we focused on bringing the LAA’s first Business Plan to life by delivering its milestones, commitments and the following three strategic objectives:

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

The milestones and commitments were tracked and monitored through the LAA’s performance management framework which included KPIs that measured the significant elements of our day to day work: (i) service delivery; (ii) finance & efficiency; (iii) people & capability and (iv) reputation. Additionally, the Performance Management Framework also measures key milestones in relation to the delivery of the LAA reform programmes. Progress against our milestones and commitments for each strategic objective are outlined below:








### Key for strategic objective, delivery milestone and KPI reporting

-  Achieved
-  Largely achieved
-  Partially achieved
-  Not achieved

### Strategic Objective 1:

Improve casework to reduce cost, enhance control and give better customer service

#### Commitments/Milestones

-  Refresh our Counter Fraud Strategy
-  Complete the roll out of CCMS to all providers of civil legal aid
-  Review target turnaround times for civil case working in light of CCMS implementation
-  Review our Estates Strategy with MoJ
-  Review our case working operating model following the full implementation of the LASPO Act 2012 and CCMS
-  Reduce outstanding casework waiting to be processed
-  Centralise control of specialist categories into high cost cases

### Improve casework to reduce cost

There were a number of initiatives during the year which were aimed at improving casework and reducing cost:

- We have met our operational processing targets throughout the year and reduced our underlying administration costs
- Through the CCP, we have agreed the transfer of crime application work from HM Courts & Tribunals Service to the LAA. This work will involve national roll out of an electronic

*Our year in focus continued*

eForm application, introduce electronic work for crime providers and introduce the capability for all bills to be submitted online. This programme will result in annual savings in criminal legal aid application processing costs

- The CCMS pilot enabled us to gather vital feedback which we incorporated into further enhancements to improve both the performance and functionality of the system. We are now rolling out CCMS to the broader civil legal aid provider community and to our internal Case Management teams.

**Enhance control**

During the year a number of activities focused on enhancing controls over the administration of the Legal Aid Fund. These are set out below:

- The LAA has maintained a strong financial grip in living within its budget for Legal Aid Fund spend and in reducing its administrative costs. At the same time we have worked hard to increase the level of commercial awareness throughout the organisation, using business partnering arrangements to enable our finance professionals to work with and support colleagues involved in operational delivery
- We have continued to demonstrate high levels of accuracy in processing. The error rate remains below 1%. This has been possible through greater emphasis on regular quality control checks at both local and office level and core testing at a national level to identify and alert caseworkers to emerging performance issues
- An increase in Criminal Legal Aid collections of £10 million this year (2013-14: £25 million 2012-13: £15 million). This has been delivered in partnership with Rossendales, our debt collection and enforcement contractors. We

have retendered the contract for collections this year, through which we aim to further improve gross collections to £30 million in 2014-15.

**Give better customer service**

During the year, the LAA has focused on improving customer service through both the timeliness of application and bill processing and wider service enhancements:

- Customers now take an average of two minutes to reach a telephone advice line operator, down from 20 minutes in 2012-13
- At the end of 2013-14 the civil billing reject rate was 10.7% compared to 27.8% at the beginning of the year  
The decreased rejection levels were substantially achieved through:
  - › Closer provider and LAA working relationships
  - › Introduction of the bill rejects fixer system, a rapid response service via e-mail, set up to deal with all reject claim challenges within 24 hours. This service enables providers to challenge rejects they believe to have been made in error
- The CCMS has been further developed to provide better applications. The CCMS reduces reject levels; saving providers time previously wasted resubmitting information. Submissions and decisions will be delivered online, saving time
- The timeliness of current application and bill processing improved across the board in 2013-14, with most case types being processed 20% faster than they were in the previous year. Our improved processing efficiency was achieved through the introduction of Continuous Improvement techniques.

## Digital by Default

To improve casework and reduce costs to meet Strategic Objective 1, we have digitised some of our services and our aim is to be fully online.

We have already made good progress in achieving this objective with approximately 60%, in volume, of our civil and criminal work already managed online; in most cases these are the more simple billing transactions. In total we have 1.9 million crime and civil transactions fully online and there are approximately 1.2 million transactions still to be brought online.

Our approach across Civil Legal Aid is being realised through CCMS, which will cover all elements of the end to end process for managing civil certificated work. This will be paperless and exclusively online. Similarly, for Criminal Legal Aid, we are extending the benefits of current online working and we will continue to work to make the remainder of crime applications available online.

The following case study illustrates how we are working to increase our online services and how this plays a part in delivering the **Civil Service Reform: More Digital**.

### Case study #1: Digital eligibility tool

In April 2013 a new digital tool was launched for citizens to check whether they qualify for legal aid and then direct them to the most appropriate source of help; including Civil Legal Advice, legal aid advice providers or other free advice services.

Building on the success of this service, the LAA is working in partnership with MoJ Digital Services to ensure the Civil Legal Advice digital service due to be re-launched in November 2014 provides a full user friendly online service for clients. The new service is being developed in house and will meet the Government's Digital by Default Service Standard.

We have started a programme of user testing to inform the design and technical development. This will help ensure the system is sufficiently simple and intuitive to enable people to use it first time, unaided. We will continue to provide telephone access for users who need support.

*Our year in focus continued***Strategic Objective 2:**

Improve organisational capability to meet the challenges ahead, including developing and engaging our people

**Commitments/Milestones**

- ✓ Close our office at Exchange Tower (London) and move staff to our London Headquarters at 102 Petty France
- ✓ Complete formal closure of the Executive Agency Transition programme
- ↔ Produce the PDS operating model which is consistent with the restructured criminal defence market
- ✓ Deliver our part of the new people strategy for MoJ
- ✓ Make full use of Civil Service Learning to enhance the skills and knowledge of our staff
- ✓ Deliver our diversity priorities

**Improve organisational capability**

Since the LAA was first established we have built on our extensive efforts to ensure our people are well informed, well trained, and engaged with their work.

LAA staff became civil servants, a change that has opened up a huge range of opportunities and has been broadly welcomed. As civil servants we have adopted the *Civil Service Code* and moved to Civil Service pay and conditions. Additionally, we have built resilience and capability within PDS and will implement an operating model once the announced policy changes through Transforming Legal Aid are fully embedded.

Our people have already begun to take up shadowing and job opportunities in the wider justice system and Civil Service and we have seen a healthy movement of people both in and out of the LAA, bringing new expertise, connections and an exchange of good practice.

**Developing and engaging our people**

Over the last year our work in this area has been focused on three themes:

- Acting on the results of our National Staff Engagement Survey
- Developing our talent
- Ensuring that the LAA has an inclusive culture and a representative workforce.

In 2013-14 we developed an extensive National Action Plan, created in partnership with our people, in response to feedback from the National Staff Engagement Survey. Actions delivered include presenting and publicising a common purpose for the organisation, promoting good practice in people performance management, the introduction of Team Information Boards with regular staff briefings and publicising the range of development opportunities open to civil servants.

The National Action Plan is supported by local action plans which address local issues. There is sustained visibility and accessibility of our leadership team to all staff through biannual Senior Leadership Group visits to all regional offices, regular weekly communications to all staff from the Chief Executive inviting feedback on essential matters, biannual manager meetings and intranet webchats on various work programmes.

We also acknowledged and celebrated the successes of teams and individuals in the LAA through our National Employee Awards ceremony. Awards were given in eight categories and winners included the team responsible for working to deal with the surge in applications prior to the implementation

*Our year in focus continued*

of the LASPO Act 2012 and the team that worked to reduce the error rate, contributing to the LSC Accounts being unqualified for the year ended 31 March 2013. Individuals were awarded for their work on diversity, being inspirational leaders and for work undertaken not only within the LAA but also within the community.

We saw a 13% increase in the number of staff completing the National Staff Engagement Survey, resulting in an 89% participation rate. At the same time we achieved a 3% increase in our staff engagement score to 60%. This score was 2% above the Civil Service average (58%) and moved us to being ranked 33rd out of 98 Civil Service organisations (up from 50th place in 2012-13).

Our experience over the last year has continued to demonstrate the fundamental role our people play in achieving our purpose, and the MoJ's *Department Improvement Plan* ensures we have the organisational capability to meet the challenges ahead.

We have become part of the MoJ and Government wide talent management and development programmes, and are well represented on a full range of high potential development schemes. Our talent management activities have enabled the LAA to identify and develop people who have the potential to progress to more senior levels whilst ensuring all staff are given opportunities to use their talents to contribute to the LAA's objectives.

We conducted a talent review of staff at bands A and B which contributed to individuals' leadership development plans and helped us assess the organisation's capability and our leadership development needs.

Please see the link below for more information on Non SCS Pay Bands. [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/60737/Payscales\\_20Combined\\_0.xls](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/60737/Payscales_20Combined_0.xls)

One of the benefits of becoming civil servants has been gaining access to Civil Service Learning, a service we have publicised and promoted widely, and through which our staff have completed mandatory training courses like that on equality and diversity. We encouraged all staff to make use of the five learning days which are available to them each year.

We continue our commitment to the development of our people and making a contribution to deliver the **Civil Service Reform: More Skilled**.

**Case study #2: Mentoring in the LAA**

The LAA Senior Leadership Group (SLG) set up a mentoring programme this year which has been well received and will continue in 2014-15. All members of the SLG made a commitment to support at least two mentees with a specific focus on career development. This initiative helped develop a sharp focus on staff development and on supporting each other. This was further supplemented by local mentoring schemes. For example, the LAA's Contract Management team set up a scheme to make their contract managers available as mentors for other members of staff throughout the organisation. A number of colleagues are taking part in the scheme, with some being mentored by a contract manager and others opting to shadow a contract manager for a day. The scheme offers mentees the opportunity to receive advice and guidance to support their personal development goals, to experience first hand the relationship the LAA has with our providers, and to explore and understand how we can work better with each other. Mentors have also benefited from the opportunity by developing their skills in problem solving, and by working with people from across the LAA which has developed their networks outside of contract management.

*Our year in focus continued***Ensuring that the LAA has an inclusive culture and a representative workforce**

Our key activities undertaken in 2013-14 are detailed in the Environment, social, community and human rights section on page 36.

**Strategic Objective 3:**

Build and maintain strong partnerships to secure quality provision and contribute fully to wider justice and Government aims

**Commitments/Milestones**

- ✓ Work with the MoJ to design a competitive mechanism for crime contracts that, subject to consultation, delivers the savings sought from the Transforming Justice programme
- ✓ Work as an integral part of the MoJ contributing to wider justice system aims contained in the Transforming Justice programme
- ✓ Work with the MoJ to deliver reductions in experts' and counsel expenditure in legal aid, subject to consultation
- ✓ Complete formal closure of the LAR programme and complete a post implementation review of the operation of LAR
- ✓ Tender face to face contracts for welfare benefits
- ✓ Work positively with other Government departments and stakeholders

**Build and maintain strong partnerships**

We put together strong programmes of communication and engagement focusing on the needs of both our partners and the LAA. For example, we worked with providers and advocates to help:

- Test our online solution for civil work – the CCMS
- Bring people up to speed on LAR and the first two phases of LAT
- Build understanding about working together to improve processing time standards and reduce civil bill rejects.

**Contribute fully to wider justice and Government aims**

During the period we began delivering legal aid under the LASPO Act 2012 which was introduced on 1 April 2013. This represented a wide ranging programme of reform to the scope of legal aid and clients' eligibility. These reforms are now fully integrated as part of the LAA's operations.

In addition, in April 2013, the Secretary of State for Justice launched the Transforming Legal Aid consultation on further legal aid reform. We have delivered the first two tranches of crime and credibility reforms and fee changes in 2013-14.

We have worked closely with the MoJ throughout 2013-14 including on delivering reductions in expenditure on experts' and counsel fees through implementation of a single Counsel and Civil and Crime fees. Additionally, we have consistently met our correspondence target in processing complaints, freedom of information requests, Data Protection Act 1998 requests and ministerial correspondence within target levels for the year.

We forged stronger links with the MoJ's policy teams to help us contribute more to the wider justice system. The LAA played a pivotal role in providing insight from an operational and service delivery perspective in formulating policy for Transforming Legal Aid.

The link between policy making and implementation and our relationship with other parts of the MoJ family has continued to be crucial in the areas of LAT and the implementation of other reforms.

The following two case studies illustrate how we have worked well with parts of the MoJ and the key agencies charged with delivering the legal aid reforms and played a part in delivering the **Civil Service Reform: Improved policy making, and open, unified and accountable:**

#### **Case study #3: Transforming Legal Aid**

Transforming Legal Aid is one of the Secretary of State's five priorities and builds on LAR. The package of reforms set out in the Government's consultation Transforming Legal Aid, and its response, is designed to make legal aid more credible in terms of public confidence and reduce the bill to taxpayers; whilst ensuring we continue to provide access to legal aid for those who need it, protect the most vulnerable in our society and deliver an efficient justice system.

We have worked closely with the MoJ during the policy development phase advising on the implementation activities for each reform. We have already successfully implemented the first phases of these reforms in 2013-14 and we are now focused on implementing the rest of the package.

The most significant reforms in terms of savings and challenge for the LAA in 2014-15 are the procurement of the new criminal legal aid contracts and reform of advocacy services. In total, the reforms will help reduce the legal aid bill by approximately £215 million by 2018-19.

#### **Case study #4: Family Justice Reform**

As part of the wide ranging reform of the Family Justice System, the MoJ implemented a new Family Court to replace the existing County Court and Family Proceedings Court in April 2014.

The Family Advocacy Scheme (FAS) currently remunerates advocates on the basis of the tier of court. We worked with the MoJ Legal Aid and Family Policy teams, and with representative bodies, to identify the impacts of the FAS changes on providers and to develop an alternative basis for payment. We then worked closely with the MoJ Analytical Services team to quantify the impact of the changes and with the MoJ legal teams to identify the necessary changes to the contract and to the Civil Legal Aid (Remuneration) Regulations 2013.

These strategic objectives are measured using KPIs. Refer to the next page for more detail.



# Our performance

This chapter reports on the main developments of the year, and includes the key statistics relating to the delivery of legal aid through Civil Legal Aid and Criminal Legal Aid.

## Key Performance Indicators (KPIs)

As a new executive agency of the MoJ, the LAA established a performance framework that set out four KPIs for 2013-14 to monitor progress and performance. Throughout the year the results were reported to the Executive Management Team, the LAA Board and the MoJ Executive Management Committee. Progress was communicated to all LAA staff via our intranet site on a monthly basis.

For 2013-14, we achieved all four KPIs, and the following provides further information on our KPIs.

The KPIs have been subject to an internal audit by PwC. The audit found that the controls and processes in place for reporting KPIs mitigated identified risks. Particularly the audit found that: KPIs were aligned to strategic objectives; there was clarity around achievement of targets through the use of defined performance ratings, which were fully documented; and performance was regularly reported to the LAA Board including improvement plans.

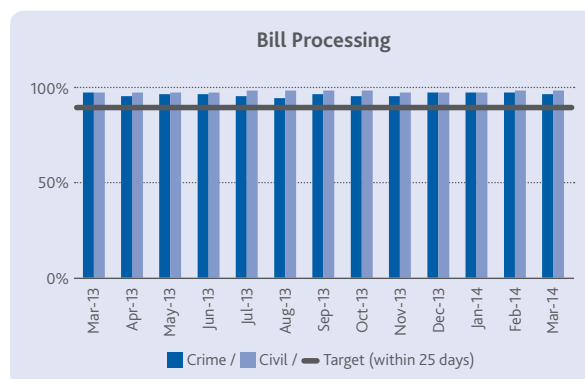
Progress against our KPIs is outlined below:

### KPI 1: Financial & Efficiency

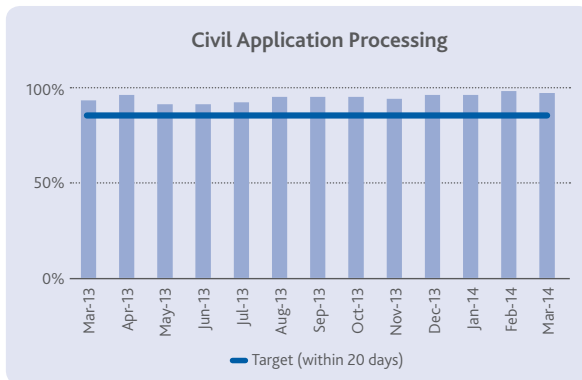
The LAA has embedded strong financial management. We have lived within our budget for the year on our Legal Aid Fund budget and Administrative budget. This represented a challenge as budgets for the year represented inbuilt savings and reductions of 8.2% and 9.1% respectively from the previous financial year.

### KPI 2: Service Delivery

In 2013-14 we achieved sustained monthly performance at above target levels for the processing of civil applications (85% in 20 working days) and civil and crime bills (90% in 25 working days) throughout the year. Additionally, through provider visits and joint working between our Case and Contract Management teams, we have reduced our reject rates on Civil bills and Advocate bills by more than half (down to 10.7% and 8.9% respectively) and maintained the overall error rate on accuracy and eligibility of our payments at below 1%.





*Our performance continued***KPI 3: Reputation**

We have achieved our correspondence target for the year. During the year, we aligned our targets with the rest of the MoJ but maintained service levels to the LAA targets which were more stretching.

We have answered 411 Freedom of Information (FOI) requests, with 90% being answered within the statutory 20 day turnaround time. We have performed well on our internal reviews of appeals against decisions on FOI requests with 100% of reviews complete within 20 days.

In addition, we have answered 98% of MP's correspondence in 20 days and 92% of Data Protection Act 1998 requests within 40 days. Both of these were delivered at above the target level of 90%.

**KPI 4: People and Capability**

In our first year we have seen a 3% increase in our staff survey staff engagement score and a reduction in our average working days lost (down from 7.90 days to 7.59 days) which is better than the Civil Service average.

**Key facts and figures**

We present statistical information in a summary format. More detailed statistical analysis can be found in the Statistical Information 2013-14 document on our website at <https://www.gov.uk/government/collections/legal-aid-statistics>

**Points to highlight:**

- Total acts of assistance and spend – The LAA continued to fund advice, assistance and representation for eligible individuals across England and Wales by funding 1.8 million acts of assistance overall (Civil Legal Aid and Criminal Legal Aid). [2012-13: 2.3 million]. Total net expenditure was £1,709.5 million. [2012-13: £1,916.7 million].
- Number of providers – As at 31 March 2014 the LAA held 1,435 civil and 1,519 crime contracts [March 2013: 1,899 civil and 1,599 crime contracts].
- Civil Legal Aid – The LAA funded 0.50 million Civil Legal Aid acts of assistance overall [2012-13: 0.93 million, a 46% decrease in the year]. Civil Legal Aid net expenditure was £800.9 million [2012-13: £941.6 million].
- Criminal Legal Aid – The LAA funded 1.32 million Criminal Legal Aid acts of assistance [2012-13: 1.36 million, a 3% decrease in the year]. Criminal Legal Aid spend was £908.6 million [2012-13: £975.1 million].
- Administration – Net expenditure was £106.2 million [2012-13: £111.4 million].
- Central Funds – Net expenditure was £89.1 million. In the prior year the MoJ Accounts included £97.8 million of expenditure for Central Funds. The LAA funded 1,619 Defence Cost Orders in the Crown Court [2012-13: 2,117] and 16,863 Defence Cost Orders in the magistrates' court [2012-13: 20,704].
- KPIs – In 2013-14 the LAA achieved all 4 KPIs [2012-13: achieved 6 of 6].

*Our performance continued*

This section includes the key statistics that relate to the delivery of legal aid through Civil Legal Aid and Criminal Legal Aid.

Table B: Expenditure and acts of assistance 2013-14

	Spend	Acts of assistance
	£m	000s
Civil Legal Aid Licensed Work (gross) <sup>1</sup>	856.9	116.3
Less operating receipts	(177.4)	-
Interest receivable/received etc.	(8.4)	-
Civil Representation (net)	671.1	-
Legal Help <sup>2</sup>	129.8	380.6
<b>Civil Legal Aid total (net)</b>	<b>800.9</b>	<b>496.9</b>
Crime Lower (gross) <sup>3</sup>	367.3	1,202.8
Crime Higher (gross) <sup>3</sup>	565.9	121.3
less operating receipts, etc.	(24.6)	-
<b>Criminal Legal Aid total (net)</b>	<b>908.6</b>	<b>1,324.1</b>
<b>Civil and Criminal Legal Aid total (net)</b>	<b>1,709.5</b>	<b>1,821.0</b>
<b>Other non segmental total<sup>4</sup></b>	<b>34.7</b>	
LAA Administration excluding HM Courts & Tribunals Service fees	98.7	
LAA Administration HM Courts & Tribunals Service fees only	7.5	
<b>LAA Administration total</b>	<b>106.2</b>	
<b>Central Funds total</b>	<b>89.1</b>	
<b>LAA total net operating costs</b>	<b>1,939.5</b>	

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

2 Legal Help acts of assistance are based on new matter starts, the details of which can be found in the "Civil Legal Help Workload - Matters Started" table in the Statistical Information pack available on the gov.uk website.

3 Crime Lower acts of assistance are based on claim volumes; excluding second claims for deferred sentencing. Crime Higher acts of assistance are based on representation orders granted.

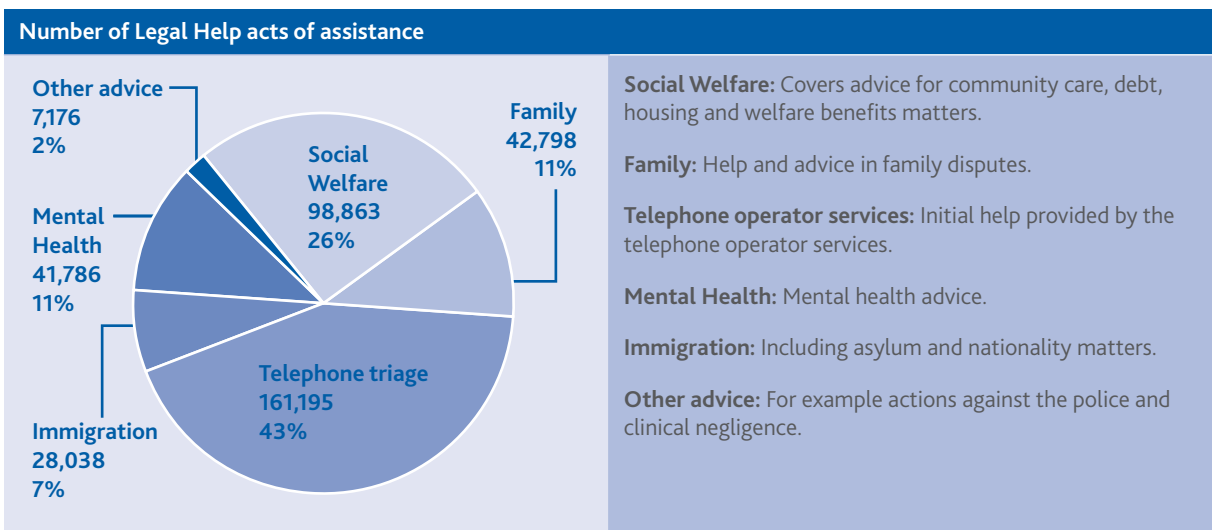
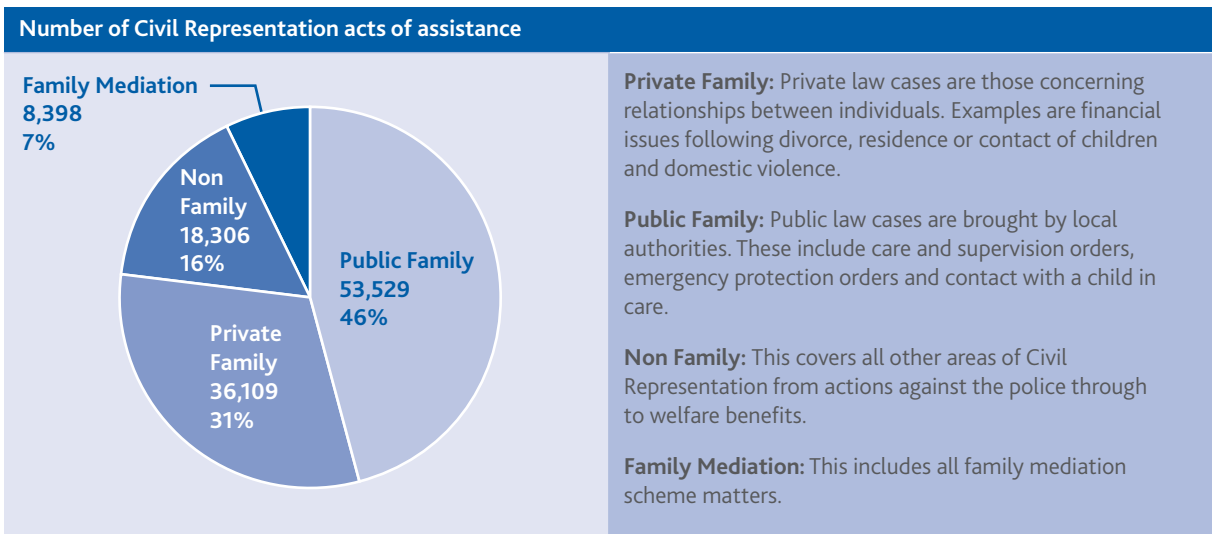
4 Other non segmental results represent receivables impairment and write offs.

<b>Volume: We funded 1.8 million legal aid acts of assistance</b>	<b>Value:</b> We spent £1.7 billion in total legal aid expenditure and £106.2 million in costs of administering legal aid.	
<b>All providers: As at 31 March 2014:</b>	<b>Civil providers:</b> <ul style="list-style-type: none"> <li>• 1,422 Provider firms</li> <li>• 13 Telephone advice providers</li> </ul>	<b>Crime providers:</b> <ul style="list-style-type: none"> <li>• 1,516 Provider firms</li> <li>• 3 Telephone advice providers</li> </ul>

### Civil Legal Aid

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

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

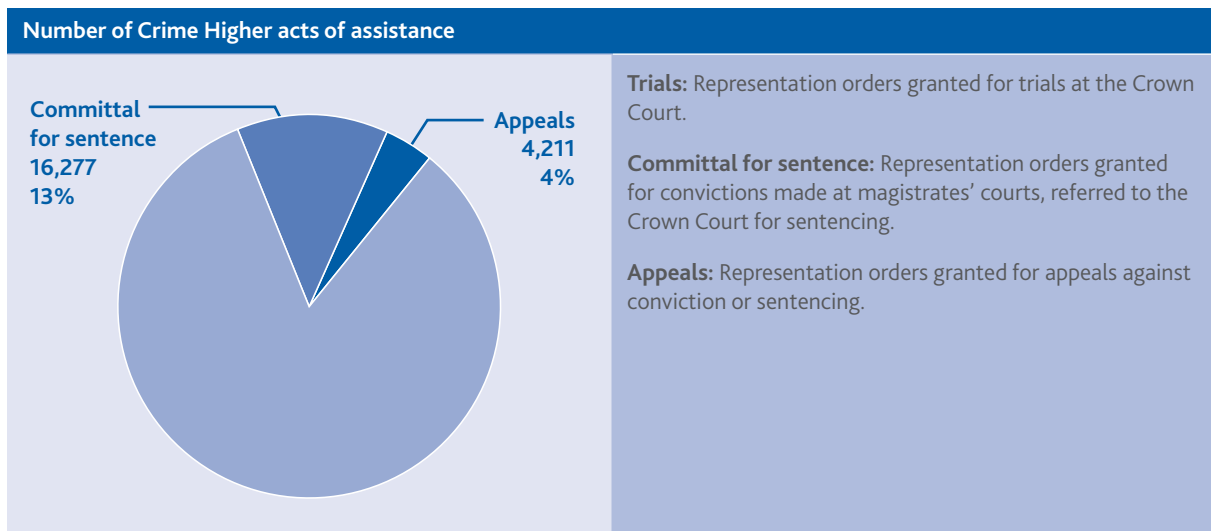
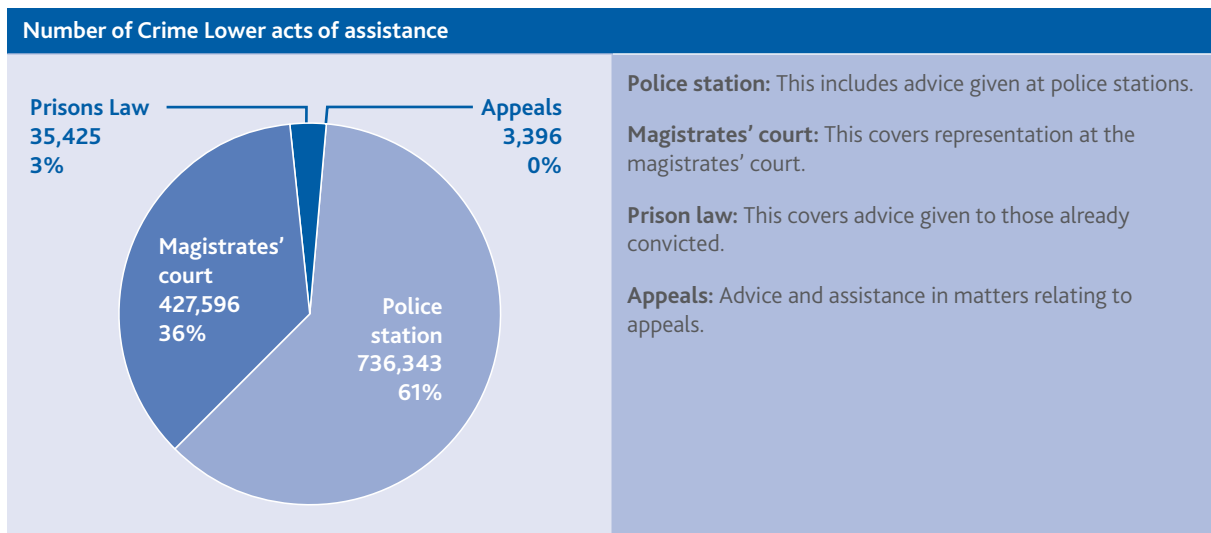


*Our performance continued*

### Criminal Legal Aid

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

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



# Our plans for the future

In 2014-15 the LAA will continue to work towards the MoJ objective of a justice system which is more efficient, less costly, and responsive to the public.

Please refer to the LAA Business Plan 2014-15 which sets out the strategic direction for 2014-15 and future years.

<http://www.justice.gov.uk/downloads/publications/corporate-reports/legal-aid-agency/laa-business-plan-2014-15.pdf>

## Retaining our strategic objectives and delivering our change programmes

We believe a continued focus on our existing three strategic objectives during 2014-15 is the most effective way to deliver the MoJ objective and will ensure consistency for staff in the second year of the LAA. We will also deliver the following ambitious change programmes resulting in savings to the public purse and providing a better service to our providers:

- **Implementation of the LAT reforms**

The package of reforms was set out in the Government's consultation Transforming Legal Aid published in April 2013. The programme will ensure we continue to provide access to legal aid for those who need it, protect the most vulnerable in our society and deliver an efficient justice system.

As the delivery agency for legal aid, the LAA is responsible for implementing the final LAT proposals, working in collaboration with providers to do this as effectively as possible. Further work will be carried out in 2014-15 to implement the final elements of the programme, these include changes to the AGFS and the introduction of a new model of tendering for criminal legal aid services. Many of the reforms require significant changes

to our IT systems and business processes. The programme will ensure these changes allow our operational teams to continue to administer legal aid in the most efficient and effective way possible.

- **Delivering CCMS**

Once fully rolled out CCMS will allow civil legal aid providers to submit all their applications and bills online, improving efficiency and control in our civil casework function. It will also greatly reduce error rates in the applications we receive.

We conducted a CCMS pilot during which over 3,000 applications were processed successfully and have begun a phased roll out of the system. Use of the system is currently voluntary, during 2014-15 we will make its use mandatory. We will continue to review CCMS performance and introduce further enhancements based on feedback.

- **Crime Change Programme**

The objective of the CCP is to enable us to process all criminal legal aid applications and bills in a paperless and electronic way. As part of the programme the LAA will be transferring and centralising the existing criminal legal aid application process from HM Courts & Tribunals Service to the LAA. We will also modernise the application process by expanding the use of electronic applications (eForms), enabling providers to submit applications for criminal legal aid online, and introduce changes to the billing system to transfer the service online. As a result, by the end of 2014-15 we will offer the majority of our services online, greatly improving our providers' experience and making a significant contribution to the Cabinet Office's Digital by Default agenda.

*Our plans for the future continued*

Under this modernised and automated process, we expect to be able to provide a much improved level of customer service to providers as well as to make efficiency savings. This change will have a secondary benefit of improving the quality of applications and providing a greater level of financial stewardship for the LAA.

### Continuous improvement

Alongside our change programmes we will further embed a culture of continuous improvement throughout the organisation during the year. We will do this through training and the use of communications channels. As already demonstrated in 2013-14, continuous improvement will allow us to harness the full potential of our people to ensure the progress we have made in delivering an efficient and effective service can continue. Across the LAA, staff will increasingly take ownership of the service they deliver and develop and improve it themselves. This emphasis on incremental and continuous improvement is reflected in our decision to retain our 2013-14 strategic objectives, while extending and adapting the supporting KPIs and performance measures to ensure that we deliver more for less.

### Improving the way we interact with our providers

We will further develop how we interact with our providers and improve our customer service standards. One such approach will be through our new Channel Strategy. During 2014-15, and beyond, this Strategy will transform the LAA from a largely paper based organisation to one which carries out most of its customer service transactions via digital media. This process will begin in Civil Legal Aid before being rolled out to crime, with two primary aims:

- Enhance the existing channels to improve customer satisfaction
- Move the majority of contact to those channels which offer best value for money and the best experience for providers, such as email and web chat.

Once our new Channel Strategy has been introduced we will be able to offer providers a range of improved ways to contact our customer services.

### Making the LAA a better place to work

Our experience over the last year has demonstrated the importance of our people during a challenging period. In the coming year we will strive further to make the LAA an even better place to work. Our National Action Plan, developed in partnership with staff across the organisation, sets out how we will go about doing this. It focuses on three key themes:

- Promoting local teamwork and line management best practice and improving the immediate working environment
- Getting communications right and keeping our people informed
- Investing in skills.

This programme will play a part in everything we do and will include a wide range of initiatives, from supporting our people to make the best use of their five days of annual training, to improving the physical environment they work in.

### Transforming the Way We Work

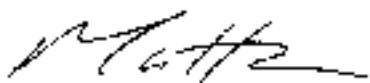
'Transforming the Way We Work', or TW3, is a Cabinet Office initiative that sets out the vision for a transformed workplace in the Civil Service. TW3 is about identifying what we need to work effectively, and then delivering solutions to meet these needs.

TW3 in the LAA is driven by our commitment to making the LAA a better place to work. It will involve challenging the stereotypes of work being something that is undertaken at a desk in a Government building and moving to a place where work activity is undertaken in many places, offices, home and/or other Government and public places. Over the next two years the initiative will:

- Make the necessary changes to the existing office estate to ensure it is compatible with more modern ways of working, including greater utilisation of space and improved ability to work and collaborate away from a traditional environment
- Deploy better IT to support different patterns and locations of working. We will be asking whether existing technology is fit for purpose, how we can make better use of modern technology in the way we work, meet and collaborate, and how we can build the digital capabilities and mindset to get the most out of new tools and devices
- Introduce HR policies that promote smart working. We will create a more flexible package for people who work in case working teams, and our High Cost and Complex Casework team will be a pilot for the MoJ.

By being innovative about our workplace we will be able to deliver increased efficiency, productivity and job satisfaction.

**Signed for and on behalf of the Legal Aid Agency**



**Matthew Coats**  
Chief Executive and Accounting Officer  
of the Legal Aid Agency  
18 June 2014





# Chief Executive's report

# Management commentary

This chapter sets out how senior management have performed their duties during the year. It also provides some commentary to support the Financial Statements and our performance during the past year.

## Commentary on 2013-14 financial results

The Financial Statements are set out from pages 67 to 111. The LAA Accounts comprise of six reporting segments; Legal Help, Civil Representation, Crime Lower, Crime Higher, Central Funds and Administration, in line with the day to day budgeting and management of our expenditure. Note 3 to the Accounts on page 83 details the net operating expenditure for each of these segments and notes 4-8 set out expenditure and income in detail for each of the segments.

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

The LAA's receivables balance includes money due from clients who have been in receipt of legal aid with the majority of this being due under a statutory charge. Statutory charges arise where legally aided clients successfully gained or retained an asset as a result of the legal assistance

they had received. In these circumstances the client must repay the cost of their legal aid. The client has the right to defer this repayment and if they do the LAA gains security over the debt by registering a formal charge over the relevant asset. Interest is charged against this debt at 8% simple interest and the debt is only repayable on sale of the asset, although clients are encouraged to repay debts to avoid interest charges. These debts are quantified through a case balancing process that takes account of the total value recoverable for the client and then limits the amount recoverable by the cost to the LAA.

The remainder of the receivables balance is from money owed by various providers of legal aid that have arisen from the recoupment of payments on account on settled cases and the recovery of overpayments.

### Accounts Direction

The Accounts have been prepared in accordance with the Accounts Direction issued by HM Treasury under section 7(2) of the Government Resources and Accounts Act 2000.

The MoJ Accounting Officer has designated the LAA Chief Executive as the Executive Agency's Accounting Officer.

This Direction covers the resources acquired, held or disposed of during the year and the use of resources by the LAA. The Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the LAA and of its Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of Cash Flows and Statement of Changes in Taxpayers' Equity for the financial year.

The LAA has agreed with HM Treasury that its opening balance sheet will represent the consolidated closing balance sheet of the Community Legal Service Fund (CLSF), the Criminal Defence Service (CDS) and the LSC Administration at 31 March 2013 as shown in note 2 of the Financial Statements. The comparatives represent the aggregate of the comparable items in the CLSF, CDS and LSC Administration Financial Statements for 2012-13.

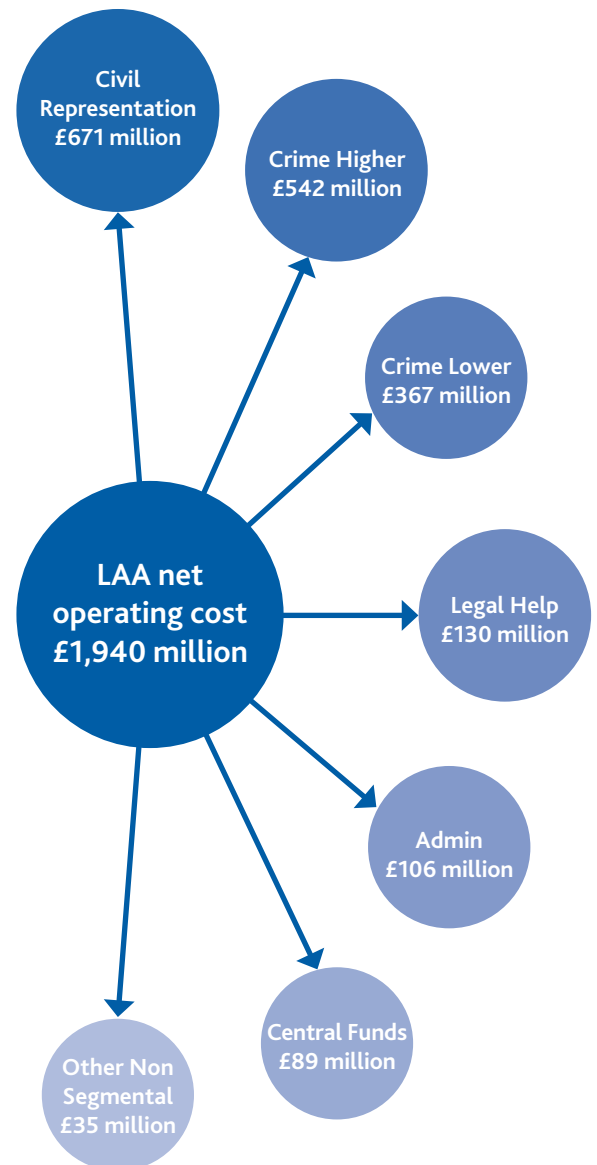
The LAA also agreed with HM Treasury to recognise the transfer of the provision balance related to Central Funds included within the MoJ's Accounts for the year ended 31 March 2013 via General Reserve in the LAA's Statement of Changes in Taxpayers' Equity for the year ended 31 March 2014.

The Financial Statements for the LAA are prepared in accordance with the HM Treasury's *Government Financial Reporting Manual* (FReM) and applicable accounting standards.

### Results for the year

The LAA divides income and expenditure into the following operating segments: Legal Aid Fund, Administration and Central Funds for the purpose of making operational decisions and reporting to the LAA Board. The Legal Aid Fund is further subdivided into Legal Help, Civil Representation, Crime Lower, and Crime Higher.

Central Funds net operating costs reflects the spend on orders made to acquitted defendants who have privately funded their legal representation. Administration net operating costs reflect the administration costs of running the LAA.



*Management commentary continued*

The net operating costs of operations by reportable operating segments for the year ended 31 March 2014 is shown on page 83 of the Financial Statements.

Between 2012-13 and 2013-14 we have seen an overall reduction in net expenditure of £88.4 million and the main activities for each of the reportable operating segments that have impacted upon this reduction are detailed below:

- **Legal Help** – Legal Help expenditure on solicitors' charges, counsel fees and disbursements has decreased in 2013-14 as a result of a reduction in scope and therefore lower activity than in the prior year. The volume of new matter starts reported by providers has decreased by 163,000 (79%) for family cases and 238,000 (41%) for non family cases. There has also been a significant decrease in spend on Civil Legal Advice.
- **Civil Representation** – As anticipated, rate and scope changes as a result of LAR have reduced Civil Representation expenditure on solicitors' charges, counsel fees and disbursements. There have been 35,000 (42%) fewer certificates issued for private family and non family cases and the average cost per case has fallen by £204 (4%). Additionally, changes in the family justice system processes have resulted in a temporary decline in activity on Special Children Act 1989 cases, the largest category of Civil Representation expenditure, as 3,000 (5%) fewer certificates have been issued. These decreases have partially been offset by an increase in the provision for amounts outstanding on funded cases due to improvements to the WIP model.
- **Crime Lower** – There has been a decrease in expenditure due to a fall in the volume of magistrates' court work with a reduction of 30,000 (6%) in the number of magistrates' court representation claims.
- **Crime Higher** – There has been a small decrease in the average cost of cases due to LAR and pre-LAR changes to AGFS. Volumes have decreased due to a reduction in the number of Crown Court sitting days and there have been 23% fewer high cost case contracts paid.
- **Central Funds** – As part of the move to executive agency status, the spend on Central Funds transferred from within the MoJ to the LAA on 1 April 2013. Comparatives are not shown as Central Funds spend is a new expenditure stream for the LAA in 2013-14. In the prior year, the MoJ Accounts included £97.8 million of expenditure for Central Funds.
- **Administration** – There has been a £5.2 million reduction in administration costs mainly due to lower employment costs, reduced property charges following the exit of our premises in Exchange Tower and reduced legal and professional fees. The net administration costs figure included in the Statement of Comprehensive Net Expenditure of £106.2 million includes £6.8 million of pension costs. Pension costs were classified as programme expenditure in 2012-13.

# Policies and key information

## Policy and practice on payment of creditors

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

Table C: Bills paid and performance

Bills paid – 2013-14 target measures	Targets 2013-14	Performance 2013-14	Bills paid – 2012-13 target measures	Targets 2012-13	Performance 2012-13
Civil bills – Taxed, assessed, POAs, Family Graduated Fee & Family Advocacy Scheme bills	25 days (90%)	99%	Civil bills – Taxed, assessed, POAs, Family Graduated Fee	30 days (90%)	98%
Criminal non standard fee and Investigative exceptional cases	Apr – Jun 2013 30 days (90%)	99%	Criminal non standard fee	30 days (90%)	99%
	Jul 2013 – Mar 2014 25 days (90%)	99%	Investigative exceptional cases	30 days (90%)	99%
AGFS & LGFS	Apr – Jun 2013 30 days (90%)	97%	AGFS & LGFS	30 days (90%)	94%
	Jul 2013 – Mar 2014 25 days (90%)	97%			

*Policies and key information continued*

The performance measure for the processing of criminal legal aid bills (criminal non standard fee and investigative exceptional cases and AGFS and LGFS fee claims) had a stepped reduction from July 2013 to reflect expected improvements in bill processing.

### **Control improvements**

In 2013-14, the LAA continued its Stewardship Programme. This has been a comprehensive programme designed to improve the LAA's IT systems, its processes and the controls in place to accurately grant legal aid for clients and pay legal aid providers. Progress against the programme's action plan was overseen by the Stewardship Steering Group made up of senior LAA managers from all parts of the organisation. The Steering Group provides regular updates to the LAA's Executive Management Team and the LAA's Board. The Programme's success was highlighted by the removal of the regularity qualification from the final year's Accounts of the LSC for 2012-13.

An example of changes undertaken in the year includes further improvements to the LAA's internal processes for assessing the eligibility of legal aid clients. We issued further guidance to providers on how to submit correct immigration and asylum claims and promoted an accompanying online training package. Additional improvements have been made to our quality control testing to further reduce potential errors. This work covers both means assessments and the final bills being paid.

The LAA continues its programme of enabling all transactions to run online. Progress continues on the implementation of CCMS, a system designed to automate the processing of Civil Representation cases. The LAA has instigated a programme designed to place the remaining elements of criminal legal aid processing online.

### **Fraud prevention improvements**

Throughout 2013-14, the LAA continued to develop its counter fraud capability through implementation of its Counter Fraud Strategy. A programme of fraud risk work has continued with a particular focus on procurement and payments to providers making immigration and asylum claims. The LAA has also taken part in a pilot data matching exercise with the National Fraud Initiative. Our fraud risk assessment work will focus on a MoJ wide fraud risk assessment plan in 2014-15.

Significant work was carried out to increase joint working between the LAA, the wider MoJ Counter Fraud teams, other Government departments and regulatory bodies. Joint working with the Department for Work and Pensions (DWP) resulted in savings of over £0.5 million for the LAA and four successful prosecutions of legal aid clients. The LAA & DWP won the Collaboration award at the National Fraud Awards 2013, for their joined up approach to fighting fraud. Close working relationships were also developed with the Solicitors Regulation Authority, HMRC and the Insolvency Service. The LAA also continued to work closely with local authorities and HM Courts & Tribunals Service.

The LAA further developed its capability to deliver successful counter fraud investigations of legal aid providers and to deliver prosecutions for acts of fraud against legal aid. In total the LAA's counter fraud activity resulted in the recovery or preservation of approximately £1.2 million in 2013-14 and £2.5 million of savings.

## Working with providers

We continue our extensive work with legal aid providers to further improve the way claims for Legal Help payments are made. This work is designed to reduce the risk of errors.

Written guidance was given to providers and a number of online training modules were made available which providers access free of charge. In addition, we risk profile providers based on their claims submitted and previous track record of compliance to provide a framework for the LAA's contract managers, responsible for managing relationships with providers, and the LAA's in house assurance function. Teams visited providers to offer guidance and support to help providers claim more accurately and, where relevant, identify and correct errors and recover overpayments.

Particular emphasis was placed on working with family and immigration and asylum providers. In line with the requirements of *Managing Public Money*, the LAA actively looked to recover monies in situations where providers had been overpaid. As a result of this work, the LAA recovered over £6 million of overpayments in 2013-14.

In addition to making these recoveries, the LAA issued 932 contract notices, which require providers to improve the way they claim for payments within a certain period, applied 142 contract sanctions, which impose restrictions of the work that can be undertaken, and over 80 contracts were terminated. The LAA followed up all contract notices to ensure that providers rectified the weaknesses identified in their procedures.

The LAA will continue this work to improve the management of claims for legal aid payments throughout 2014-15.

## Reporting of personal data related incidents

In 2013-14 there were 293 personal data related incidents reported to the MoJ in line with our agreed reporting procedures (see table D). Whilst this number is higher than in previous years, it reflects the effectiveness of the considerable work undertaken across the LAA to raise awareness of information security and the importance of reporting incidents. During the year the LAA refreshed its security incident management policy and processes, and delivered a number of activities to publicise effective information security practice. This has facilitated the identification and swift reporting of data incidents, their timely management, and subsequent analysis of trends to address specific weaknesses.

We also considered whether any incident was so serious that it should be reported to the Information Commissioner's Office (ICO). One incident was self reported to the ICO via the MoJ's Data Access and Compliance Unit in August 2013. The ICO closed the case in November 2013 without action, noting the remedial actions taken by the LAA to inform the clients affected and acknowledging the work done to raise awareness around information security. There were no other incidents of severity that required further analysis.

*Policies and key information continued*

Table D: Summary of personal data related incidents in 2013-14

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured Government premises	66
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured Government premises	20
III	Insecure disposal of inadequately protected electronic equipment, devices or paper	0
IV	Unauthorised disclosure	207
V	Other	0

**Going concern**

The going concern basis is set out in note 1a of the LAA's Financial Statements. The Financial Statements for the LAA in respect of the year to 31 March 2014 are prepared on a going concern basis in accordance with the *FReM* issued by HM Treasury.

The Statement of Financial Position at 31 March 2014 shows net liabilities of £731.2 million (2012-13: £760.1 million net liabilities).

Provision for Resource and Capital Expenditure, and Annually Managed Expenditure for 2014-15 for the functions performed by the LAA, have already been included in the estimates of the MoJ. These estimates have been approved by Parliament, and there is no reason to believe that the MoJ's future sponsorship and future Parliamentary approval will not be forthcoming.

**Grant and loan making powers**

Under section 2, "Arrangements" of the LASPO Act 2012, the Lord Chancellor is allowed to make arrangements by (a) making grants or loans to enable persons to provide services or facilitate the provision of services; (b) making grants or loans to individuals to enable them to obtain services, and (c) establishing and maintaining a body to provide services or facilitate the provision of services.

On behalf of the Lord Chancellor, the LAA was able to fund services as part of Civil Legal Aid by making grants or loans to persons or bodies to enable them to provide or facilitate the provision of services. During 2013-14, the LAA made grants in accordance with the Secretary of State's specific direction. This expenditure is reported in note 7 of the LAA's Financial Statements under the headings: 'Grants and Direct Services'.



## **Research and development**

The MoJ provides the LAA with all research to inform policy development and programme evaluations.

## **Financial instruments**

As the cash requirements of the LAA are met through the estimates process, financial instruments play a more limited role in creating and managing risk than would apply to an executive agency of a similar size. Please refer to note 12 of the LAA's Accounts for detail on financial instruments and associated risk.

## **Auditors**

Paragraph 7 (3) (b) of the Government Resources and Accounts Act 2000 provides that the LAA's external auditor is the Comptroller and Auditor General. The notional cost of the audit is disclosed in note 6 to the LAA's Financial Statements and relates solely to statutory audit work.

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

## **Engagement in Wales**

The LAA maintains close links with the Welsh Assembly Government, in recognition of the devolved administration. This includes working directly with stakeholder groups such as the Criminal and Family Justice Boards in Wales, as well as specific Welsh stakeholders such as Citizens Advice Bureau Cymru, Children and Family Court Advisory and Support Service Cymru and Shelter Cymru.

# Environment, social, community and human rights

## Equality and diversity

The LAA is committed to ensuring we have due regard to equality in our delivery of legal aid and values the diversity of our people.

The LAA has five senior people who are MoJ Diversity Champions representing various areas. The MoJ promotes Diversity Champions who play an important role in helping to embed equality and diversity into all aspects of our business, and supporting the work across MoJ to deliver diversity, equality and inclusion priorities.

During 2013-14 the LAA set five diversity priorities:

1. Embrace diversity through the leadership of the organisation
2. Improve support for people with a disability
3. Build an inclusive culture towards different working patterns
4. Support the diverse representation of people at senior grades and
5. Improve the capability of people to take account of the equality duty to enable us to efficiently commission and administer legal aid.

Some of our achievements in 2013-14 are set out below:

- Established Disability Champions following feedback from people with a disability
- Promoted the Time to Change mental health awareness campaign
- Performed an online survey on flexible working culture with around 300 LAA people taking part
- Promoted Civil Service online training on equality and diversity and
- People across the LAA took into account the equality duty in their day to day business. For example, we considered requests for

reasonable adjustments from legal aid clients with a disability and anticipated the diverse needs of legal aid clients and providers in the commissioning and delivery of legal aid.

Equality and diversity information published by the LAA is available on the Justice website at: <https://www.gov.uk/government/publications/corporate-equality-information>

Additional information about LAA workforce diversity will be published by the MoJ later in 2014.

## Employment of disabled persons

The LAA has adopted MoJ policies in respect of the employment, training, career development and promotion of people with a disability. These include the MoJ's Equal Opportunity and the Disability Policy and the Ability Manual. Our people have access to the MoJ Reasonable Adjustment Support Service and Civil Service positive action coaching and career development programmes targeted to support people with a disability.

## Gender

At 31 March 2014, from the gender data available, the LAA consisted of 867 female and 628 male employees.

## Principal Civil Service Pension Scheme

As detailed in note 5 to the Accounts, from 1 April 2013, the LSC No. 4 Pension Scheme was closed to existing staff.

All existing LSC staff at 31 March 2013 were automatically enrolled into the Premium Scheme of the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-

employer defined benefit scheme which prepares its own Accounts but where individual employers are unable to identify their share of the underlying assets and liabilities of the scheme.

All new LAA staff after 1 April 2014 will be automatically enrolled into the NuvoS Scheme. Employees are able opt out of the of their current defined benefit scheme to open a partnership pension account, which is a stakeholder pension with an employer contribution.

Further details of the PCSPS schemes are provided in the Remuneration Report on page 48.

#### **Sickness absence data**

Refer to our people scorecard KPI on page 19 for sickness absence data.

#### **Leadership and succession planning**

Capability is reviewed at regular intervals within the organisation, using a variety of business tools and starting with the Executive Management Team. Talent Management reviews take place formally twice a year aligned with the performance management year. All Senior Civil Servants (SCS), Band As, Bs and Fast Streamers are evaluated using the Civil Service wide talent management matrix which assesses individual performance and potential and is used for development purposes and career planning. The MoJ's Executive Committee considers SCS talent and succession planning across the MoJ and its agencies. The LAA has used the talent matrix to nominate people to participate in the two cross Whitehall talent programmes - Senior Leaders Scheme (Deputy Director) and Future Leaders Scheme (Band A). We also participate in the Justice Leaders Development Scheme (Deputy Director).

The LAA is conducting a programme to build capabilities across the LAA in line with Civil Service Reform and is working closely with the MoJ Corporate Learning Team. A number of initiatives have been introduced to support line manager capability and skills development across the LAA, including a Band D development plan that has been designed and rolled out across some business areas.

Details of the composition of our governance are included in the Strategic report on page 9.

#### **Environmental issues**

The LAA's focus for sustainability is on achieving Government targets, reducing environmental impact and reducing costs. Priorities include reducing carbon emissions, water consumption and recycling more waste.

Further details are set out in the LAA Sustainability report on page 40.

#### **Political donations**

During 2013-14, the LAA made no political donations (2012-13: nil).

#### **Signed for and on behalf of the Legal Aid Agency**



#### **Matthew Coats**

Chief Executive and Accounting Officer  
of the Legal Aid Agency  
18 June 2014



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# Sustainability report

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

- Ensure procurement of sustainable and efficient products whilst reducing the impact of the supply chain.

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

## Introduction

This is the LAA's first Sustainability report as an executive agency, prepared in accordance with the 2012-13 guidelines laid down by HM Treasury in *'Public Sector Annual Reports: Sustainable Reporting'* published at <https://www.gov.uk/government/publications/public-sector-annual-reports-sustainability-reporting-guidance>.

The focus for sustainability is on achieving Government targets, reducing environmental impact and reducing costs. Priorities include reducing carbon emissions, water consumption and recycling more waste.

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

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

- Reduce greenhouse gas emissions from a 2009-10 baseline across the whole estate and business related transport
- Reduce waste generated by 25% from a 2009-10 baseline
- Reduce water consumption from a 2009-10 baseline, reporting on water use against best practice

## Sustainable procurement

As an executive agency, the LAA is subject to central MoJ processes and policies on sustainable procurement. This requires a continued focus on achieving more sustainable procurement methods, resulting in less waste and reducing our environmental impact, in line with GGCs.

## Summary of the LAA’s Performance in 2013-14

### Greenhouse Gas (GHG) emissions

Overall GHG emissions decreased by 21% in comparison to 2013-14 as a result of a 28% decrease in electricity usage and a 6% decrease in gas usage. As an executive agency from 2013-14 onwards, the LAA reports directly into MoJ systems for monitoring GHG emissions. This will enable more comprehensive tracking of progress in future SD reporting.

Table E: GHG emissions

		2013-14	2012-13
<b>Non financial indicators (Tonnes of CO<sup>2</sup> equivalent (tCO<sup>2</sup>e))</b>	Total gross emissions for scopes 1 & 2	1,256	1,757
	Electricity: green/renewable	N/A	N/A
	Total net emissions for scopes 1 & 2 (i.e. having removed renewable elements)	1,256	1,757
	Gross emissions scope 3 travel	88	49
	Total gross reported emissions	1,344	1,806
<b>Non financial indicators (Megawatt hour MWh)</b>	Electricity: Purchased, Grid, CHP & non renewable	1,992	2,779
	Electricity: renewable	N/A	N/A
	Gas	1,589	1,681
	Other energy sources	N/A	N/A
	Total energy	3,581	4,460
<b>Financial indicators (£000)</b>	Expenditure on energy	289	380
	Expenditure on accredited offsets (e.g. Government Carbon Offsetting Facility)	N/A	N/A
	Expenditure on official business travel	1,001	548

## Waste

General waste created by the LAA/LSC was disposed of through individual contracts at a local level. The LAA is working on a solution to accurately monitor waste, and use this data to accurately measure and report across the organisation.

Table F: Waste

			2013-14 Weight (tonnes)	2012-13 Weight (tonnes)
<b>Non financial indicators</b>	Hazardous waste	Hazardous waste	Not available	Not available
	Non hazardous waste	Landfill waste	Not available	Not available
		Reused/recycled waste	159	148
		Energy from waste	Not available	Not available
	<b>Total waste arising</b>		<b>159</b>	148

			(£000)	(£000)
<b>Financial indicators</b>	Hazardous waste	Hazardous waste	Not available	Not available
	Non hazardous waste	Landfill waste	Not available	Not available
		Reused/recycled waste	18	17
		Energy from waste	Not available	Not available
	<b>Total waste cost</b>		<b>18</b>	17



## Water

Available financial data indicates a reduction of 5% in the cost of water used by the LAA in 2013-14 when compared to 2012-13. The LAA has now moved contracts for property management to those used by the MoJ and is in the process of acquiring the historical estate information which landlords hold as well as all other information that is required for monitoring and reporting finite resource consumption.

Table G: Water

		2013-14 Weight (tonnes)	2012-13 Weight (tonnes)	
<b>Non financial indicators</b>	Water consumption	Supplied	<b>Not available</b>	Not available
		Abstracted	<b>Not available</b>	Not available
	<b>Total water consumption</b>		<b>Not available</b>	Not available
		<b>(£000)</b>	<b>(£000)</b>	
<b>Financial indicators</b>	<b>Total water supply cost</b>	<b>18</b>	<b>19</b>	

## Biodiversity and natural environment

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

## Summary of the LAA's future strategy

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

Where possible, the LAA's intention is to ensure joined up services, contracts and facilities are in place so that data required for SD reporting is available from a central source.

In 2014-2015, the LAA will continue to focus on processes designed to ensure SD reporting requirements are met as part of the MoJ's overarching SD Strategy.

# Remuneration report

This chapter summarises the LAA's policy on remuneration of Executive Board Members and Non Executive Board Members; it also provides detail of actual costs and contractual arrangements.

The Remuneration report has been prepared in accordance with the requirements of the *FReM* as issued by HM Treasury.

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

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

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

## Remuneration Policy

### Executive Board Members

#### Service contracts

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

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

#### Performance process

SCS follow the Cabinet Office guidelines for SCS Performance Management Framework. There were two 'formal' Performance Management Review (PMR) discussions a year and then regular one-to-one meetings to monitor progress and ensure that all objectives were still relevant.

#### Total amount of salary and fees

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

### All taxable benefits

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

### Money or other assets received as a result of performance achievement for relevant year

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2013-14 relate to the performance in 2012-13 and the bonuses reported in 2012-13 relate to the performance in 2011-12.

### All pension related benefits

Section 229 of the Finance Act 2004 determines the maximum annual level of pension savings that can be accrued under a defined benefit arrangement before any taxation is charged. The amount of savings shown in Table K is the increase in the value of the individual's promised benefits over the pension input period (which is the financial year for the LAA). Any increase is the difference between the value of the individual's benefits at the start of the pension input period (1 April 2013) and the value of the individual's benefits at the end of the pension input period (31 March 2014); this also incorporates any increase to pensionable pay.

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

### Exit packages

Note 4 to the 'LAA Notes to the Financial Statements' sets out information in relation to exit packages.

There was no compensation payable to Executive Board Members in the event of early termination.

### Non Executive Board Members (NEBMs)

Three NEBMs have been recruited through an open competition in accordance with the Constitutional Reform and Governance Act 2010. They are appointed on merit and in recognition of their respective abilities and experience by a panel including a MoJ Non Executive Director and delegated subject specialist as relevant. The Chief Executive appointed the NEBMs for a fixed period of three years.

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

NEBMs are not members of the PCSPS, and were not entitled to any other benefits or remuneration.

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

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

### Executive Board Members

The Chief Executive and all Executive Board Members followed the PMR process highlighted in the performance process section on page 44. Progress and objectives were monitored twice a year by the Human Resources team. The performance measures for each member of the Executive Board Members have been met.

## Remuneration report continued

Table H: Senior employees in post at 31 March 2014 - Employment costs

Executive Board Members	2013-14					2012-13				
	Total amount of salary and fees	All taxable benefits	Money or other assets received as a result of performance achievement for relevant year	Pension related benefits	Total	Total amount of salary and fees	All taxable benefits	Money or other assets received as a result of performance achievement for relevant year	Pension related benefits	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Matthew Coats</b> <sup>1a</sup> <i>LAA Chief Executive and Director General of MoJ Corporate Services</i>	140-145	-	10-15	34	190-195	140-145	-	-	64	205-210
<b>Hugh Barrett</b> <i>Director of Commissioning and Strategy</i>	140-145	-	10-15	29 <sup>7</sup>	180-185	140-145	-	-	43	180-185
<b>Owen Mapley</b> <sup>5</sup> <i>Director of Finance and Performance (Left 10 April 2014)</i>	110-115	-	10-15	45	165-170	110-115	-	5-10	30	150-155
<b>Ruth Wayte</b> <i>Principal Legal Advisor to the LAA</i>	95-100	-	-	6 <sup>7</sup>	100-105	100-105	-	-	17	115-120
<b>Shaun McNally</b> <b>CBE</b> <sup>4</sup> <i>Director of Case Management</i>	90-95 <sup>2</sup>	41.6 <sup>3</sup>	-	51	180-185	35-40 (full time equivalent 80-85)	14.5	-	3	50-55 (full time equivalent 120-125)
<b>Sandra Corrigan</b> <sup>1b</sup> <i>Director of HR and Organisational Development (Left 31 July 2013)</i>	30-35 (full time equivalent 85-90)	-	-	. <sup>7</sup>	30-35 (full time equivalent 85-90)	85-90	-	-	18	105-110
<b>Damon Norville</b> <sup>1c</sup> <i>Director for Business Change and IT (left 13 May 2013)</i>	5-10 (full time equivalent 80-85)	-	-	(12)	(5)-0 (full time equivalent 65-70)	75-80	-	5-10	9	95-100
<b>Helen Riley</b> <sup>6</sup> <i>Director for Case Management (left 31 October 2012)</i>	-	-	-	-	-	65-70 (full time equivalent 115-120)	-	5-10	3	80-85 (full time equivalent 125-130)

1a. Since 3 June 2013 Matthew Coats has also been employed as the Director General for MoJ Corporate Services. His remuneration covers both roles and is also reported in the MoJ Accounts to denote his dual responsibilities.

1b. Sandra Corrigan left the LAA on 31 July 2013. The voluntary redundancy payment was paid in line with LSC terms and conditions during July 2013 for the amount of £135,974. This amount was accrued for in the 2012-13 LSC Accounts.

1c. Damon Norville left the LAA on 13 May 2014.

2. Shaun McNally received an Excess Fares allowance of £9,761 in respect of permanent relocation of his place of work. The allowance was paid as a lump sum and is for a period of 3 years. A pro rata amount of £3,254 is included in the figure above.

3. As Director of Case Management, the post covers all Case Management teams in regional offices. It is unreasonable to expect Shaun McNally to meet the cost of travelling to additional offices, and therefore a dual workplace agreement was entered into on 1 April 2013. The costs above illustrate the benefit in kind for all travel to and from dual workplace locations.

4. Shaun McNally joined the LAA Board on 22 October 2012.

5. Since 10 April 2014, Catherine Little is the Acting Director of Finance and Performance.

6. Helen Riley left the LSC on 31 October 2012.

7. For these members the pension related benefits for 2013-14 have been calculated on their PCSPS service from 1 April 2013.

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

	2013-14	2012-13
<b>Band of highest paid Executive Board Member's total remuneration (£000)</b>	155-160	140-145
<b>Median total remuneration (£)</b>	24,751	25,499
<b>Ratio</b>	6.36 : 1	5.6 : 1

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

The banded remuneration for the highest paid Executive Board Member in the LAA in the financial year 2013-14 was £155-160k (2012-13: £140-145k). This was 6.36 times the median remuneration of the workforce, which was £24,751 (2012-13: £25,499).

In 2013-14, two contractors (2012-13: nil) received banded remuneration of £200 - 205k which was in excess of the highest paid Executive Board Member.

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

Table J: Executive Board Members – Employment contracts

Executive Board Members	Contract start date	Term served (years)	Notice period (months)
Matthew Coats	27 February 2012	2	3
Hugh Barrett	1 December 2008	5	3
Owen Mapley	1 December 2010	3	3
Ruth Wayte	7 July 2003	10	3
Shaun McNally CBE	22 October 2012	1	3

### Civil service pension benefits

Pension benefits are provided through the Civil Service pension arrangements. Civil servants may be in one of four defined benefit schemes; either a final salary scheme (Classic, Premium or Classic Plus); or a whole of career scheme (Nuvos). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium, Classic plus and Nuvos are increased annually in line with Pensions Increase legislation. Members may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

From 1 April 2013 all employees became civil servants and were automatically enrolled into the Premium Scheme of the PCSPS. The Executive Board members are members of the Classic and Premium Schemes. Employee contributions are salary related and range between 1.5% and 6.25% of pensionable earnings for Classic and 3.5% and 8.25% for Premium, Classic plus and Nuvos. Increases to employee contributions will apply from 1 April 2014.

#### Classic Scheme

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

#### Premium Scheme

For Premium Scheme, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of reckonable service. The Premium Scheme does not attract an automatic lump sum.

### Nuvos Scheme

In Nuvos a member builds up a pension based on their pensionable earnings during their period of Scheme membership. At the end of the Scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that Scheme year and the accrued pension is updated in line with Pensions Increase legislation.

In all cases members may elect to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

#### Partnership Pension Account

The Partnership Pension Account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable earnings (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable earnings to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the Scheme if they are already at or over pension age. Pension age is 60 for members of Classic, Premium and Classic plus and 65 for members of Nuvos. Table K details Executive Board Member's pension entitlements.

Pension benefits for civil servants seconded to the LAA were provided through the Civil Service pension arrangements managed by the MoJ. For further information please refer to [www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions).

Table K: Executive Board Members – pension costs for the year ended 31 March 2014

	Total accrued pension payable at age 60 at 31 March 2014 and related lump sum	Real movement in pension and related lump sum payable at age 60	CETV at 31 March 2014	CETV at 31 March 2013	Real increase in CETV
	£000	£000	£000	£000	£000
Matthew Coats <sup>1</sup>	Pension 40-45 Lump sum 0	Pension 0-2.5 Lump sum 0	619	555	20
Hugh Barrett <sup>1 &amp; 5</sup>	Pension 15-20 Lump sum 0	Pension 15-20 Lump sum 0	309	170	298
Owen Mapley <sup>1</sup>	Pension 10-15 Lump sum 0	Pension 2.5-5 Lump sum 0	138	102	21
Ruth Wayte <sup>1 &amp; 5</sup>	Pension 0-2.5 Lump sum 0	Pension 0-2.5 Lump sum 0	6	186	4
Shaun McNally CBE <sup>4</sup>	Pension 30-35 Lump sum 90-95	Pension 0-2.5 Lump sum 5-7.5	486	424	33
Sandra Corrigan <sup>1, 2 &amp; 5</sup>	Pension 10-15 Lump sum 0	Pension 10-15 Lump sum 0	217	198	217
Damon Norville <sup>3</sup>	Pension 20-25 Lump sum 65-70	Pension 0-2.5 Lump sum 0-2.5	326	324	0

1. Matthew Coats, Owen Mapley, Hugh Barrett, Ruth Wayte and Sandra Corrigan are members of the Premium Scheme of the PCSPS.  
2. Sandra Corrigan left the Premium Pension Scheme on 31 July 2013.  
3. Damon Norville was a member of the Classic Scheme of the PCSPS, and his benefits were calculated to 13 May 2013 when he left the LAA.  
4. Shaun McNally CBE is a member of the Classic Scheme of the PCSPS.  
5. For these members the CETV at 31 March 2013 represents the CETV of their LSC No. 4 Pension Scheme as previously disclosed in the 2012-13 LSC Financial Statements as required by the Employer Pension Notice. For these members the real increase in CETV assumes a value of nil for their PCSPS service at 1 April 2014.

### Cash Equivalent Transfer Value (CETV)

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

The pension figures shown relate to accrued benefits for total membership of the Scheme and include the value of any pension benefits transferred into the PCSPS from other pension arrangements. CETVs are calculated in accordance with the Occupational Pension Schemes (Transfer Values) (Amendment)

regulations 2008 and do not take account of any actual or potential reduction in benefits resulting from Lifetime Allowance Tax which may be due when the pension benefits are taken.

### Real increase in CETV

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

### Non Executive Board Member (NEBM)

NEBMs were part time and their role involved a commitment of 20 days per year during 2013-14. They held office until the end of the period for which they were appointed.

Any appointments made by the Secretary of the State may have been terminated at his discretion.

### Employment costs – NEBMs

Table L: NEBMs in post at 31 March 2014 – employment costs

Non Executive Board Member	Remuneration	Expenses <sup>2</sup>	Total 2013-14	Total 2012-13
	£000	£000	£000	£000
<b>John Grosvenor</b> <i>Audit NEBM and Chair of the LAA Audit Committee</i>	10.4 <sup>1</sup>	0.4	10.8	2.6
<b>Eric Gregory</b>	8.0	1.1	9.1	-
<b>Andrew Lockley</b>	8.0	1.0	9.0	-

1. The remuneration includes £2,400 as Chair of the LAA Audit Committee.
2. The cost of expenses varies according to the distance between the NEBMs home and the LAA's office, other travel commitments required by their role, and the time commitment of the individual NEBM. NEBMs were reimbursed for travel and other expenses including any taxation paid on those expenses.

Table M: NEBMs – employment contracts

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

No NEBMs left the LAA during 2013-14.

The LAA was created on 1 April 2013. NEBMs were appointed prior to this date for induction purposes.

### Signed for and on behalf of the Legal Aid Agency



#### Matthew Coats

Chief Executive and Accounting Officer of the Legal Aid Agency  
18 June 2014



# Statement of the Accounting Officer's responsibilities

Under section 7(2) of the Government Resources and Accounts Act 2000, HM Treasury directed the LAA to prepare for each financial year a statement of accounts (the Accounts) in the form and on the basis set out in the Accounts Direction issued by HM Treasury on 28 May 2014. The Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the LAA and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

The Principal Accounting Officer of the MoJ has designated the LAA's Chief Executive as Accounting Officer from 1 April 2013. In this capacity his responsibilities are to:

- Observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards as set out in the *Government Financial Reporting Manual* have been followed and disclose and explain any material departures in the Accounts;
- Prepare the Accounts on a going concern basis; and

- Ensure that, so far as the Accounting Officer is aware, there is no relevant audit information of which the entity's auditors are unaware. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the LAA's auditors are aware of that information.

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

# Governance statement

The Governance statement is prepared annually. It explains how the Accounting Officer has discharged his responsibility to manage and control the LAA's resources during the year. This statement describes the LAA's governance arrangements and provides an assessment of how we have balanced risk, assurance and control throughout 2013-14.

## Introduction

This is the first Governance statement for the LAA, an executive agency of the MoJ, created on 1 April 2013 as the successor to the NDPB, the LSC. As Accounting Officer, I am satisfied that the LAA has established a strong management structure in its first year, supported by a robust governance and internal control framework. These arrangements have allowed us to ensure effective stewardship of the public funds for which we are accountable, whilst delivering against our core objectives.

This statement summarises the LAA's Governance Framework, our Risk Management Strategy and other key arrangements which have assured me of a strong control environment to ensure the effective and efficient delivery of legal aid.

## Governance Framework

The LAA's published Framework document was laid before Parliament on 28 February 2013 and sets out our arrangements for governance and accountability. The Lord Chancellor accounts for the LAA's business in Parliament and determines policy on legal aid. The Permanent Secretary is the Principle Accounting Officer for the MoJ as well as Departmental Sponsor of the LAA. In this capacity, the Permanent Secretary is accountable to Parliament for the public funds delegated to me as the Chief Executive and Accounting Officer of the LAA. As Accounting Officer, I am responsible

for ensuring robust planning and sound financial management across the LAA.

The LAA's governance arrangements are compliant with the key requirements of HM Treasury's Corporate Governance in Central Government: *Code of Good Practice 2011*. One exception to this is explained in further detail below.

## LAA Board

As Chief Executive, I established and chaired the LAA Board to provide overarching governance across the organisation.

The LAA Board has guided the LAA's strategic direction whilst advising and challenging both its performance and its delivery. The LAA Board is responsible for ensuring appropriate arrangements are in place to provide assurance on risk management, governance and internal control. The LAA Board meet on a monthly basis excluding August and December, delivering against its requirement to meet at least ten times during the year.

The LAA's Governance Arrangements document explains the LAA Board's role in guiding the organisation's strategic direction. The LAA Board's specific responsibilities are to:

- Define the values and culture for the LAA and agree milestones for how this will be achieved
- Support the Chief Executive to ensure that the LAA is fully accountable to the MoJ and wider Government by delivering on its objectives and priorities
- Support the Chief Executive in executing his duties as Accounting Officer for the LAA
- Provide rigorous challenge, oversight and scrutiny of the LAA's performance, including ensuring organisational risks are identified and mitigated and that continuous improvement

opportunities are being identified, monitored and progressed

- Support the Chief Executive and Executive Management Team in developing and implementing the LAA's Business Plan
- Ensure that the decision making processes of the Chief Executive and Executive Management Team are robust and supported by appropriate evidence
- Support the Director of Legal Aid Casework in carrying out his responsibilities, ensuring robust practices are in place to maintain the independent decision making process
- Provide oversight of the LAA's execution of its statutory duties including Health & Safety and Equality & Diversity.

The LAA Board is supported in its delivery of these responsibilities by a comprehensive committee structure. This is detailed further on page 55 below 'Role and Attendance at Committees of the LAA Board'.

### LAA Board Effectiveness

The LAA Board reviewed its effectiveness in March - April 2014. As part of the review, LAA Board members were invited to consider the current governance structure and ways of working and to answer a questionnaire based on the NAO's Board evaluation questionnaire. The LAA Board Secretariat also conducted interviews with each LAA Board member to gain qualitative feedback to support the questionnaire.

The LAA Board was satisfied it had sound governance arrangements in place and the LAA Board was operating effectively.

As this was the first year of the LAA, Board members participated in two workshops during the year to discuss the LAA Board's ways of working and to set, and then refresh,

agreed behaviours. In addition, the LAA Board commissioned an internal audit of the LAA's governance arrangements which provided positive independent assurance; no significant issues were raised by the audit.

The LAA Board has played an important role in monitoring the progress of the LAA's key change programmes and projects, including the implementation of the IDP, LAT, and the initiation of the CCP. To support this role, a quarterly Change Board of Executive Management Team members was introduced in 2013-14, providing in depth oversight and scrutiny of the LAA's change portfolio.

The LAA Board monitored closely the Agency's operational and financial performance, including the regularity of Legal Aid Fund spend and the achievement of targets on areas such as processing legal aid applications and payment of bills. To facilitate their oversight, the LAA Board received a monthly integrated Finance and Performance pack covering performance against targets and indicators, financial results against budget and other important information. The LAA's monthly integrated Finance and Performance pack has been praised for its breadth of coverage and clarity of content, informing good practice in the wider MoJ.

The LAA Board is satisfied that sound governance arrangements have been in place throughout the year and that the LAA has complied with the *Code of Good Practice 2011* relevant to Central Government departments and agencies with the following exception:

- The *Code of Good Practice 2011* recommends that the LAA Board establish a committee for 'Nomination and Governance'. The primary responsibilities of this include ensuring there are satisfactory systems for identifying

and developing leadership, scrutinising the incentive structure and succession planning for the LAA Board. Whilst the LAA did not have a Nomination and Governance Committee, these responsibilities are covered by the remit of the LAA Board, the Audit Committee, and the Executive Management Team combined.

- The MoJ has a Nominations Committee which is a Committee of the Departmental Board. It scrutinises the Department's strategies and plans for talent management, succession planning, capability building, Board appointments and performance management. It also reviews the application of Civil Service SCS pay strategies and supports the Permanent Secretary in decisions on SCS Pay Band 3 pay. It provides assurance to the LAA Board in these areas.

### Attendance at the LAA Board

The quorum for the LAA Board was met for all meetings in the 2013-14 financial year. Ten LAA Board meetings and two LAA Board strategy sessions were held during the year.

LAA Board member	Number of meetings attended**
<b>Executive members</b>	
Matthew Coats <i>LAA Chief Executive and Director General of MoJ Corporate Services</i>	12 out of 12
Owen Mapley <i>Director of Finance and Performance (Acting Chair in the Chief Executive's absence)</i>	12 out of 12
Hugh Barrett <i>Director of Commissioning and Strategy</i>	12 out of 12
Shaun McNally CBE <i>Director of Case Management</i>	11 out of 12
Ruth Wayte <i>Principal Legal Advisor to the LAA</i>	11 out of 12
<b>Non Executive Board members</b>	
John Grosvenor ( <i>Finance</i> )* <i>Chair of Audit Committee</i>	10 out of 12
Andrew Lockley ( <i>Legal</i> )*	12 out of 12
Eric Gregory ( <i>Commercial</i> )*	12 out of 12
<p>* Their specialist knowledge and expertise of the financial, commercial and legal sectors respectively help the LAA Board exercise its duties in these priority areas.</p> <p>** There was also an Extraordinary Board meeting held to approve the 2012-13 LSC Annual Report and Accounts which is not included in the table above.</p>	

## Role and Attendance at Committees of the LAA Board

### Audit Committee

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

The Audit Committee is chaired by a NEBM who is a qualified accountant and has recent, relevant finance experience. The Audit Committee Chair also attends the MoJ Corporate Audit Committee. LAA Audit Committee membership during 2013-14 also included the LAA's two other NEBMs. Audit Committee meetings were attended by the Chief Executive and Accounting Officer, Director of Finance and Performance, Financial Controller, Head of Assurance, the Head of Internal Audit (MoJ) and NAO representatives.

The key areas of focus for the Audit Committee in 2013-14 were as follows:

- Oversight of financial management and the embedding of the Assurance Framework
- The timetable and plan for the production of the Annual Report and Accounts
- The LAA's programme of core testing to forecast the accuracy and eligibility of payments to providers
- Effectiveness of the LAA's Risk Management Framework
- The development and implementation of the LAA's Counter Fraud Strategy
- The development and implementation of the LAA's Business Continuity Strategy
- Oversight and monitoring of IDP, particularly the introduction of the integrated general ledger during the course of the financial year.

The Audit Committee met at least quarterly, with a further meeting specifically to review the 2012-13 Annual Report and Accounts. The quorum for the Audit Committee was met for all meetings in the 2013-14 financial year.

The Audit Committee completed a self-assessment of its effectiveness, following a PwC template of key questions. The overall theme was that the Audit Committee understands its role, has a good mixture of skills and is diligent in fulfilling its objectives. There were a number of action points for the development of the Audit Committee in 2013-14, as follows:

- Develop a relationship with the new internal audit team
- Review the work programme for 2014-15 and agree areas for detailed review
- Ensure the work programme is informed by the LAA Business Plan and risk profile <http://www.justice.gov.uk/downloads/publications/corporate-reports/legal-aid-agency/laa-business-plan-2014-15.pdf>
- Consider the linkage with the MoJ Audit Committee.

The Audit Committee prepared an Annual Assurance report for 2013-14. This summarised the main issues which the Audit Committee had focused upon, highlighted the significant improvements to the assurance regime made in the year and identified some key areas the Audit Committee will consider in the next financial year.

The membership of the Audit Committee was as follows:

Audit Committee member	Number of meetings attended
<b>Non Executive members</b>	
John Grosvenor	5 meetings out of 5
Andrew Lockley	5 meetings out of 5
Eric Gregory	5 meetings out of 5

### Executive Management Team

The Executive Management Team is responsible for the day to day operation of the LAA. Membership is at the discretion of the Chief Executive.

The Executive Management Team meets weekly and does not require a quorum for meetings. Its key responsibilities, as set out in the LAA's Governance Arrangements document, are to:

- Develop and deliver the LAA's strategic objectives, its values and its culture, ensuring effective delivery plans are in place to do so
- Manage the financial and operational performance of the LAA including assessing monthly performance and financial reports, reviewing performance against the LAA's strategic objectives
- Promote openness and accountability in the LAA's work.

Please refer to Page 9, Table A in the Our governance section of the Strategic Report to see a full list of LAA Board, Audit Committee and Executive Management Team members.

### LAA Change Board

The Executive Management Team met quarterly as the LAA Change Board to provide oversight across the organisation's change programmes. The LAA Change Board's key responsibilities, as agreed at its first meeting in November 2013, are to:

- Approve the LAA's change portfolio
- Ensure resources are allocated appropriately
- Undertake quarterly portfolio reviews to assess progress and confirm that the portfolio remains on course to deliver the desired level of strategic benefits and outcomes
- Ensure that any conflicts between portfolio delivery and business as usual are resolved
- Approve communications on portfolio progress

- Escalate issues to the LAA Board
- Review annually the effectiveness of portfolio delivery.

### Director of Legal Aid Casework

On becoming an executive agency, the Lord Chancellor designated me as the first Director of Legal Aid Casework to ensure that independent decisions continued to be made on the funding of individual cases. Please see my full report for further detail on how these functions have been carried out at <http://www.justice.gov.uk/publications/corporate-reports/legal-aid-agency>.

The following two panels provide independent review of my decisions as the Director of Legal Aid Casework:

- Independent Funding Adjudicators review the decision making function on independent cases
- Special Controls Review Panel reviews cases subject to special controls, where the case cost is likely to be over £250,000.

An additional panel of Independent Cost Assessors (ICAs) deals with applications for appeal or review against an assessment of costs. The aforementioned panels are made up of barristers, solicitors and Fellows of the Chartered Institute of Legal Executives experienced in legal case work, appointed by the LAA Chief Executive on behalf of the Lord Chancellor.

A Cost Appeals Committee (CAC) considers Points of Principle of General Importance in respect of individual legal aid funding decisions as necessary. The CAC is chaired by the LAA's Principal Legal Advisor and includes an ICA and nominee of the Law Society. A Contract Review Body (CRB) considers contractual disputes that did not reach resolution through the contractual dispute process. The CRB meets on an adhoc basis and is

made up of two members nominated by the LAA and one member by the Consultative Bodies.

### **The Health and Safety Committee**

The LAA Health and Safety Committee was established in April 2013 and met quarterly throughout the year. The Health and Safety Committee was chaired by the Health and Safety Duty Holder (Director of Case Management) and its membership included Trade Union Representatives, a Site Lead representative and Health and Safety representatives from each business directorate. The Director of Case Management also sat on the MoJ Corporate Health and Safety Committee which met biannually.

### **Pay and Remuneration**

The MoJ Workforce Committee serves as the LAA's Remuneration Committee. The Committee is chaired by the Permanent Secretary and attended by the LAA's Chief Executive. The appointment of SCS Pay Bands 1 and 2 are made by the LAA Chief Executive and approved by the Permanent Secretary and MoJ Workforce Committee.

NEBMs are appointed by the Chief Executive and a panel including a MoJ non executive director and delegated subject specialists. The Chair of the LAA Audit Committee is recruited in conjunction with the MoJ NEBMs and the MoJ Director General of Finance. For legal and commercial NEBM appointments, the panel consists of the LAA Chief Executive, a MoJ non executive member and relevant subject experts.

### **MoJ Governance**

As an executive agency of the MoJ, the LAA reports to a number of MoJ committees and governance bodies which are summarised as follows:

- The LAA Chief Executive sits on the MoJ Departmental Board and Executive Committee (ExCo). The LAA also reports

its top level corporate risks to the MoJ for consideration and discussion at Departmental Board meetings

- The LAA Senior Information Risk Owner (SIRO) sits on the MoJ SIRO Board and reports quarterly to MoJ on security incidents
- The Chair of the LAA Audit Committee is a member of the MoJ Corporate Audit Committee.

### **Risk Management**

The LAA's Risk Management Framework is a fundamental component of its governance and internal control arrangements. A comprehensive Risk Management Strategy has been in place in 2013-14. The LAA's approach to risk management was revised following the transition to executive agency status. The Audit Committee was made responsible for ensuring the LAA's risk management arrangements were adequate and effective. The Executive Management Team were made responsible for the identification, assessment and management of risks that may impact delivery of the LAA's strategic objectives.

Risk has been managed across different levels of the LAA in 2013-14. At a strategic level, the Executive Management Team members owned the Corporate Risk Register and updated it monthly, reporting on progress against mitigations to manage each risk. Executive Management Team members ensured that systems were in place to manage risks to the delivery of strategic objectives within their directorates and that proportionate controls were implemented to reduce identified risk to an acceptable level. A summary of the LAA's risk register was presented in the monthly integrated Finance and Performance pack for discussion at Executive Management Team and LAA Board meetings. The Corporate Risk Register was incorporated into the MoJ's Strategic Risk Register, owned by the MoJ Executive Committee.



At operational level, Deputy Directors owned business unit level risk registers which were updated at least quarterly; high priority or recurrent risks at this level were used to inform the Corporate Risk Register where appropriate.

The LAA's most significant risks in terms of likelihood or impact are outlined below:

- **A risk of delay to our delivery of online working for civil applications and bills through the implementation of the CCMS as part of IDP.**

The phased launch of CCMS was originally scheduled to complete in 2013-14. We listened to the feedback we received from providers who had participated in the CCMS pilot roll out. In response to their feedback, the Executive Management Team decided to delay the extended roll out until further work had been completed to enhance system performance. Whilst this work was underway, we kept provider representative bodies and our pilot providers updated of our progress. The results from this work were successful and a revised timetable has been developed and implemented since then.

- **A risk that optimal levels of operational and financial efficiency are not achieved by the LAA's planned technological solutions.**

The LAA has an ambitious IT programme to wholly digitise its services and move to 100% online working with providers. Whilst we are confident of the benefits that the digital solution will bring, we acknowledge that a significant amount of work is required before we complete this programme of work, and that close monitoring of its benefits realisation will be necessary. We have already implemented a suite of controls to allow

us to monitor, in real time, our progress in developing our technological solutions. These include monthly programme board meetings for each IT change programme, phased and tested roll out of IT systems and third party independent assurance.

- **A risk that stakeholder engagement for continuing legal aid reforms (including LAT and the CCP) which the LAA is responsible for implementing is not obtained.**

A number of changes to the legal aid system were made in 2012-13 and 2013-14 and our programmes to implement policy reform will continue into 2014-15. We accept that the implementation of reform will create challenges for the LAA. To manage this risk, we have developed a Stakeholder Management Strategy which explains how the LAA will ensure early and continuous engagement with stakeholders. A number of programme boards have been established to continuously review each change initiative, and the Executive Management Team meets quarterly as a LAA Change Board to review progress against each programme.

Both my Executive Management Team, and I are satisfied that we have put in place appropriate mitigations to prevent risks from occurring and, where necessary, that we have taken action to contain the impact of risk. I am confident that our risk management approach has been comprehensive, allowing me and the Executive Management Team to identify early, and respond to, any possible threats to the achievement of LAA objectives.

The LAA's Risk Management Policy and Framework is fully documented and is consistent with HM Treasury's *Orange Book* and MoJ requirements.



### Assurance arrangements

The LAA had a comprehensive Assurance Framework in place during 2013-14 which detailed first, second and third 'line of defence' controls across key areas of operational activity. The Assurance Framework ensured that robust controls were developed across all areas of risk and operated effectively.

The LAA has continued its Stewardship Programme in 2013-14, designed to improve its systems and processes for granting legal aid and for paying providers. The LAA continues to refine and strengthen its programme of testing the Legal Aid Fund to allow identification of erroneous transactions and to recover any overpayments. We have worked with the NAO to ensure our programme of testing remains robust. This approach has enabled the LAA to identify thematic drivers of error and to take action to address these. A range of control enhancements have been delivered this year to prevent errors from occurring, allowing the LAA to 'get it right first time'. We have improved both manual and system controls, and have worked closely with providers to address the drivers of error. Stewardship is embedded across LAA activities and has led to significant control improvements in our financial and operational management. Whilst I am pleased by our continued control enhancements in 2013-14, I acknowledge the regularity qualification in our Accounts was removed one year ago. Our focus now is to continue to drive down error in a stable and sustainable way.

The LAA Board has monitored performance through monthly discussions, based on the integrated Finance and Performance pack which uses a balanced scorecard approach to report performance in five areas: Service Delivery; Finance and Efficiency; People and Capability;

Reform and Reputation. As part of this report, the LAA Board considered the LAA's progress in achieving its strategic objectives, supported by a review of its KPIs, milestones and targets.

Additional assurance arrangements included the completion of quarterly assurance returns by every Deputy Director. Independent assurance is provided by the NAO's programme of work on the Accounts and value for money reviews on behalf of Parliament. These assurance mechanisms, together with the LAA's risk management and governance arrangements, ensured the control environment was operating as intended to allow the delivery of our aims and objectives.

A further important source of independent assurance was provided by Internal Audit, a function provided by the MoJ and delivered under contract by PwC. As part of their annual planning process, PwC completed a risk assessment of the LAA in 2013-14, based on our own strategic risk assessment, and used this to develop a suitable programme of audits. The annual internal audit was approved by the Audit Committee and was delivered by PwC throughout the year. The audit plan was completed by 31 March 2014 and provided a comprehensive level of assurance over key risks and components of the control environment, the result of which are considered in the Head of Internal Audit opinion below.

### Head of Internal Audit opinion

The Head of Internal Audit provides an annual opinion on the LAA's system of governance, risk management and internal control, based on a programme of internal audit work undertaken throughout the year. This work is summarised in his Annual Report and is undertaken in accordance with the Public Sector Internal Audit Standards. The internal audit reports and the opinion have been presented to, and discussed at, the LAA's

Audit Committee. The Head of Internal Audit's overall opinion for 2013-14 is 'reasonable assurance'. This is equivalent to the 'moderate assurance' provided last year to the LSC by the previous Head of Internal Audit. The terminology used to summarise the annual opinion has changed in order to be consistent with the terms used across the MoJ.

In the Head of Internal Audit's view the controls in place and reviewed within the context of the 2013-14 internal audit plan demonstrate that the LAA's organisational objectives are underpinned by a control environment that has remained 'in control' during 2013-14. The Head of Internal Audit notes, however, that this view is the result of the effective operation of a wide range of manual controls, and reflects a similar position to that reported by the Head of Internal Audit at the end of 2012-13. The resources needed to maintain the current level of control are significant, and whilst it was the intention of the LAA to automate many controls via the ongoing IDP implementation, this programme has experienced delays, and as a result many automated system controls have not yet been embedded in the LAA's control environment as anticipated. As such, there is continued reliance on a wide range of manual controls, which brings with it an increased inherent risk of control failure for the LAA. However in most instances, these manual controls have been operating effectively and it is clear that the LAA recognises the ongoing need to move to a platform of automated basic controls as soon as practicable.

The LAA continues to make progress in improving the control environment across all areas reviewed in the year ending 31 March 2014, with the majority of the internal audits completed having a 'Green' or 'Amber/Green' overall assessment. Only one 'Amber/Red' opinion was delivered during 2013-14, isolated to the following specific process:

- Crown Court Means Testing – The internal audit work performed identified control design weaknesses relating to how management obtains positive assurance that the data transferred to the Debt Recovery Company (DRC) is being processed accurately and completely. Management accepted this finding and ensured that data assurance considerations were factored into the DRC retender.

### Significant control weaknesses

As part of our Governance statement, we have considered areas of significant control weakness in the LAA where improvements are required.

In the last Governance statement produced for the LSC in 2012-13, I explained the progress that the LAA had made in driving down our level of error when paying legal aid. Historically, this was the LSC's most significant area of control weakness which led to a qualified regularity opinion in our Financial Statements for the period 2008-09 to 2011-12. This qualification was removed in 2012-13 and I'm pleased to report that we have continued to reduce our error rate, in line with our trajectory, in 2013-14.

Whilst we maintain our robust regime to test, quantify and forecast the accuracy and eligibility of legal aid payments, this is no longer an area of significant concern for me or the Executive Management Team, in view of the significant and consistent progress we have made in substantially reducing erroneous payments. At the end of 2012-13, our gross error was £31.1 million, reflecting 1.5% of total expenditure. The equivalent result for 2013-14 is £23.4 million, reflecting 1% of total expenditure and a 25% reduction against prior year. This progress reflects sustained efforts applied across the LAA to prevent and correct erroneous payments. These measures have

included working closely with providers to ensure they understand and avoid the most common drivers of error, ensuring our caseworkers are trained in identifying inaccurate claims, and improving preventative automated controls in our systems.

Similarly, we have sustained our focus on recovering overpayments of legal aid, which has helped to reduce our net error in 2013-14 to £13.7 million (0.7% of total expenditure). This compares to a net error of £14.5 million in 2012-13 (0.7% of total expenditure).

The reduction in civil bill reject rates over the course of the year has also contributed to an increase in the overall levels of efficiency and accuracy which is a result of strong collaboration between LAA's Contract Management and Case Management teams and providers.

### **Information assurance and data security**

The LAA reinvigorated its approach to information assurance and data security in 2013-14 through a number of measures which included:

- Rewriting LAA policies and guidance to ensure data security and information assurance arrangements were compliant with the revised HM Government's *Security Policy Framework*
- Holding a series of awareness raising events, including a 'Responsible for Information' week, publication of intranet articles, and a series of national office visits to promote information security, the Data Protection Act 1998 and the new Government Security Classification system
- Requiring the completion of mandatory 'Responsible for information and 'Government Security Classification' training, provided by Civil Service Learning, by all staff.

Information risk was managed through newly appointed Information Asset Owners who regularly compiled returns of information assets owned by them, together with completing a refreshed Information Asset Register and linking into the Information Security Risk Register setting out the assessment and mitigation of information risks. The Information Security Risk Register was submitted to the MoJ quarterly.

The LAA refreshed its Security Incident Management Policy and process which ensured the swift reporting of incidents and the analysis of trends to address specific weaknesses. The Policy also considered the need to inform the ICO of any incidents during the course of the year. One incident relating to the loss of 23 case files was self reported to the ICO in August 2013 via the MoJ's Data Access and Compliance Unit. The ICO closed the case in November 2013 without action.

For information on data security incidents please refer to page 33 of the Policies and key information section.

### **Business Continuity Planning**

The LAA refreshed its approach to business continuity following the transition to an executive agency to align with the MoJ approach. This included updating the LAA's Business Continuity Policy and developing a Business Continuity Strategy to describe the action that would be followed in the event of a major incident. The Strategy is designed to ensure that the LAA can deliver its critical activities, designed to meet its core objectives, in the event of a significant incident. All business continuity plans have been tested during the course of the financial year.

## Fraud

The LAA continued to adopt a risk based approach to preventing, identifying and investigating suspected fraud. Key measures adopted were:

- A Counter Fraud Policy designed to manage all aspects of the counter fraud process and investigation cycle, incorporating the MoJ Whistle Blowing Policy
- A two year strategic framework and action plan designed to define all counter fraud work
- A fraud risk management programme to identify and measure emerging fraud risks, and the establishment of a fraud risk network to share information and consider controls to mitigate risks
- A clearly defined intelligence and investigation process to expedite cases
- Representation on the MoJ Counter Fraud and Development Group
- A team of specialist officers dedicated to measuring, managing and investigating fraud
- A rolling programme of Fraud Awareness training provided across the LAA and to key stakeholders, designed to prevent fraud
- Data sharing agreements in place with other key Government departments to assist in the detection of fraud
- Regular training and a focus on continuous development for team members to ensure professional standards are maintained
- Close working with law enforcement agencies and the Crown Prosecution Service to ensure national file standards and practice are followed.

The LAA Counter Fraud Strategy is categorised into five areas of activity, with the greatest focus on fraud prevention. Allegations of external fraud perpetrated against the LAA are mainly by third parties (such as legal aid applicants or providers). Allegations of internal fraud are significantly fewer.

A 'zero tolerance' approach is adopted to reports of suspected internal fraud, whilst a risk based approach is taken to investigate third party fraud allegations. Our data on suspected fraudulent activity is reported to the Cabinet Office quarterly.

## Conclusion

I am confident that this statement provides a comprehensive account of the governance arrangements we have embedded within the LAA. These arrangements provide me with assurance that any risks to the delivery of our strategic objectives are identified and mitigated, and that a robust internal control framework is in place.

## Signed for and on behalf of the Legal Aid Agency



### Matthew Coats

Chief Executive and Accounting Officer of the Legal Aid Agency  
18 June 2014



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

I certify that I have audited the Financial Statements of the Legal Aid Agency for the year ended 31 March 2014 under the Government Resources and Accounts Act 2000. The Financial Statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These Financial Statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

## **Respective responsibilities of the Accounting Officer and auditor**

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the Financial Statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the Financial Statements**

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Legal Aid Agency's circumstances and have been consistently applied and adequately disclosed;

the reasonableness of significant accounting estimates made by the Legal Aid Agency; and the overall presentation of the Financial Statements. In addition I read all the financial and non financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

## **Opinion on regularity**

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

## **Opinion on Financial Statements**

In my opinion:

- the Financial Statements give a true and fair view of the state of the Legal Aid Agency's affairs as at 31 March 2014 and of the net expenditure for the year then ended; and
- the Financial Statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

**Opinion on other matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Strategic report and the Chief Executive's report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

**Matters on which I report by exception**

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

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

**Report**

I have no observations to make on these Financial Statements.

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

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

19 June 2014





# Financial Statements of the Legal Aid Agency for the year ended 31 March 2014

Legal Aid Agency  
Statement of Comprehensive Net Expenditure  
For the year ended 31 March 2014

		2013-14	2012-13*
	Note	£000	£000
<b>Administration costs</b>			
Staff costs	4	52,526	51,310
Other administration costs	6	54,433	56,296
		<b>106,959</b>	107,606
Administration income	8	(747)	(808)
<b>Net administration costs</b>		<b>106,212</b>	106,798
<b>Programme costs</b>			
Staff costs	4	2,039	8,310
Other programme costs	7	2,041,737	2,164,913
		<b>2,043,776</b>	2,173,223
Programme income	8	(210,471)	(252,071)
<b>Net programme costs</b>		<b>1,833,305</b>	1,921,152
<b>Net operating costs</b>		<b>1,939,517</b>	2,027,950
<b>Other comprehensive expenditure</b>			
<b>Items that will not be reclassified to net operating costs:</b>			
Net loss/(gain) on revaluation of intangibles		290	(2,653)
Net loss/(gain) on revaluation of property, plant and equipment		65	(539)
Decrease/(increase) in surplus - LSC No. 4 Pension Scheme	5	-	23,684
Decrease/(increase) in surplus - LSC No. 3 Pension Scheme	5	-	220
Actuarial (gain)/loss recognised - LSC No. 4 Pension Scheme	5	-	(20,698)
Actuarial (gain)/loss recognised - LSC No. 3 Pension Scheme	5	-	(200)
<b>Total comprehensive expenditure</b>		<b>1,939,872</b>	2,027,764

\* The 2012-13 balances represent the consolidated Statement of Comprehensive Net Expenditure of the Community Legal Service Fund, the Criminal Defence Service and the Legal Services Commission Administration Financial Statements as set out in note 2.

All income and expenditure are derived from continuing operations.  
The notes on pages 72 to 111 form part of these Financial Statements.

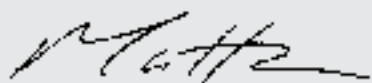
Legal Aid Agency  
Statement of Financial Position  
At 31 March 2014

		31 March 2014	31 March 2013*
	Note	£000	£000
<b>Non current assets</b>			
Intangible assets	10	47,488	44,942
Property, plant and equipment	11	10,865	6,668
<b>Total non current assets</b>		<b>58,353</b>	51,610
<b>Current assets</b>			
Trade and other receivables	13	105,549	103,144
Cash and cash equivalents	14	4,623	23,658
<b>Total current assets</b>		<b>110,172</b>	126,802
<b>Total assets</b>		<b>168,525</b>	178,412
<b>Current liabilities</b>			
Trade and other payables	15	(294,141)	(309,623)
Provisions for liabilities and charges	17	(602,545)	(625,365)
<b>Total current liabilities</b>		<b>(896,686)</b>	(934,988)
<b>Total assets less current liabilities</b>		<b>(728,161)</b>	(756,576)
<b>Non-current liabilities</b>			
Trade and other payables	15	(742)	(1,010)
Provisions for liabilities and charges	17	(2,277)	(2,516)
<b>Total non current liabilities</b>		<b>(3,019)</b>	(3,526)
<b>Assets less liabilities</b>		<b>(731,180)</b>	(760,102)
<b>Taxpayers' equity</b>			
Revaluation Reserve		1,346	2,491
General Reserve		(732,526)	(762,593)
		<b>(731,180)</b>	(760,102)

\* The 2013 balances represent the consolidated closing Statement of Financial Position of the Community Legal Service Fund, the Criminal Defence Service and the Legal Services Commission Administration Financial Statements as set out in note 2.

The notes on pages 72 to 111 form part of these Financial Statements.

**Signed for and on behalf of the Legal Aid Agency**



**Matthew Coats**

Chief Executive and Accounting Officer of the Legal Aid Agency  
18 June 2014

Legal Aid Agency  
Statement of Cash Flows  
For the year ended 31 March 2014

		2013-14	2012-13*
	Note	£000	£000
<b>Cash flows from operating activities</b>			
Net deficit after interest		(1,939,517)	(2,027,950)
Adjustments for notional and non cash transactions	6	18,511	15,813
Intra-departmental balances settled via General Reserve		5,543	-
Central Funds transfer settled via General Reserve		(17,100)	-
Pension charge		-	5,424
Impairment and revaluation of assets		148	185
Tax expense		-	33
Net finance costs/(income)		32	(2,233)
(Increase)/decrease in trade and other receivables	13	(2,405)	3,020
(Decrease)/increase in trade and other payables	15	(15,750)	(35,402)
less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		4,127	368
(Decrease)/increase in provisions	17	(23,091)	(25,667)
<b>Net cash outflow from operating activities</b>		<b>(1,969,502)</b>	<b>(2,066,409)</b>
<b>Cash flows from investing activities</b>			
Purchase of intangible assets	9	(12,675)	(13,881)
Purchase of property, plant and equipment	9	(1,016)	(2,460)
<b>Net cash outflow from investing activities</b>		<b>(13,691)</b>	<b>(16,341)</b>
<b>Cash flows from financing activities</b>			
Supply funding / Grants from the MoJ: revenue		1,954,413	2,083,585
Supply funding / Grants from the MoJ: capital		9,745	16,372
Capital element of payments in respect of finance leases		-	(383)
<b>Net cash inflow from financing activities</b>		<b>1,964,158</b>	<b>2,099,574</b>
Cash and cash equivalents at the beginning of the year	14	23,658	6,834
<b>Cash and cash equivalents at the end of the year</b>	14	<b>4,623</b>	<b>23,658</b>
* The 2012-13 balances represent the consolidated Statement of Cash Flows of the Community Legal Service Fund, the Criminal Defence Service and the Legal Services Commission Administration Financial Statements as set out in note 2.			

The notes on pages 72 to 111 form part of these Financial Statements.

Legal Aid Agency  
Statement of Changes in Taxpayers' Equity  
For the year ended 31 March 2014

		Revaluation Reserve	General Reserve	Total*
	Note	£000	£000	£000
Balance at 1 April 2012*		287	(839,498)	(839,211)
<b>Changes in taxpayers' equity for 2012-13</b>				
Grant from the MoJ: revenue		-	2,083,585	2,083,585
Grant from the MoJ: capital		-	16,372	16,372
Net operating costs for the year		-	(2,027,950)	(2,027,950)
<b>Other comprehensive expenditure</b>				
Net gain/(loss) on revaluation		3,192	-	3,192
Net actuarial (loss)/gain on LSC No.4 Pension Scheme	5	-	(2,986)	(2,986)
Net actuarial (loss)/gain on LSC No.3 Pension Scheme	5	-	(20)	(20)
<b>Non cash adjustment</b>				
Notional recharge from the MoJ	6	-	6,916	6,916
<b>Movement in reserves</b>				
Historical cost depreciation transfer		(988)	988	-
<b>Balance at 31 March 2013*</b>		<b>2,491</b>	<b>(762,593)</b>	<b>(760,102)</b>
Balance at 1 April 2013		<b>2,491</b>	<b>(762,593)</b>	<b>(760,102)</b>
<b>Changes in taxpayers' equity for 2013-14</b>				
Supply funding from the MoJ: revenue		-	1,954,413	1,954,413
Supply funding from the MoJ: capital		-	9,745	9,745
Transfer of provision balance from MoJ for Central Funds		-	(17,100)	(17,100)
Net operating costs for the year		-	(1,939,517)	(1,939,517)
<b>Other comprehensive expenditure</b>				
Net (loss)/gain on revaluation		(355)	-	(355)
<b>Non cash adjustment</b>				
Intra-departmental adjustment		-	11,992	11,992
Notional recharge from the MoJ	6	-	9,484	9,484
Notional external audit fee	6	-	260	260
<b>Movement in reserves</b>				
Transfer of Revaluation Reserve balance on retired assets		(37)	37	-
Historical cost depreciation transfer		(753)	753	-
<b>Balance at 31 March 2014</b>		<b>1,346</b>	<b>(732,526)</b>	<b>(731,180)</b>

\* The 2012-13 balances represent the consolidated Statement of Changes in Taxpayers' Equity of the Community Legal Service Fund, the Criminal Defence Service and the Legal Services Commission Administration Financial Statements as set out in note 2.

The notes on pages 72 to 111 form part of these Financial Statements.

# Legal Aid Agency

## Notes to the Financial Statements

### For the year ended 31 March 2014

#### Note 1 - Statement of accounting policies

The Financial Statements have been prepared in accordance with the 2013-14 *Government Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Legal Aid Agency (LAA) for the purpose of giving a true and fair view has been selected. The particular policies adopted by the LAA are described below. They have been applied consistently in dealing with items that are considered material to the Financial Statements.

##### a) Basis of preparation

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

The preparation of Financial Statements in conformity with IFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of income and expenditure during the reporting period. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable, the results of which form the basis of making the judgements about carrying values of assets and

liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are disclosed. These areas include: trade and other receivables (note 13) and provisions for liabilities and charges (note 17).

##### *LASPO Act 2012 and restatement of comparatives*

On 1 April 2013, the Legal Services Commission (LSC) was abolished under the Legal Aid, Sentencing and Punishment of Offenders (LASPO) Act 2012. At this date, the function, property, rights and liabilities of the LSC were transferred in full to the Secretary of State for the Ministry of Justice (MoJ) and from that date were the responsibility of the MoJ's Executive Agency, the LAA.

Under the Access to Justice Act 1999, the LSC was required to present the Financial Statements of the Community Legal Service Fund (CLSF) and Criminal Defence Service (CDS) separately from LSC Administration. As an executive agency, the LAA is no longer required to report CLSF, CDS and LSC Administration separately, therefore the LAA has consolidated these into a single set of Financial Statements.

The LAA has agreed with HM Treasury that its opening balance sheet will represent the consolidated closing balance sheet of the CLSF, the CDS and LSC Administration at 31 March 2013 as shown in note 2. Comparative information shown either explicitly in a note or in brackets represents the aggregate of the comparable item in the CLSF, CDS and LSC Administration Financial Statements for 2012-13.

Central Funds spend occurs under the terms of the Prosecution of Offences Act 1985, whereby acquitted defendants who have privately funded

their legal representation, and private prosecutors, may obtain from the Crown Court in limited circumstances an order to obtain their costs. As part of the move to executive agency status, the spend on Central Funds transferred from MoJ to the LAA on 1 April 2013. Comparatives are not shown as Central Funds spend is a new expenditure stream for the LAA in 2013-14.

#### **Administration and programme - income and expenditure**

The disclosure of administration income and expenditure is provided in accordance with *FReM* requirements. The classification of income and expenditure as administration and programme follows the definition set out in HM Treasury's Spending Review. This aligns with *HM Treasury's Consolidated Budgeting Guidance*. Administration expenditure shown in these Financial Statements reflects the administration costs of running the LAA and the programme expenditure relates to the provision of front line services.

#### **Going concern**

The LAA is an executive agency of the MoJ established under the LASPO Act 2012 to commission, procure and pay for legal aid services from providers (solicitors, barristers, mediators and the not for profit sector). The financing of the LAA's activities is met by grant from the MoJ voted on annually by Parliament and reported in the MoJ main estimate for 2014-15. Parliament voted for the funding for 2014-15 on 29 April 2014 (2013-14 on 18 April 2013). The LAA takes the view that the going concern concept applies as long as the provisions of the LASPO Act 2012 remain extant.

#### **b) New standards, amendments and interpretations**

##### ***New and amended standards adopted***

There have been the following significant changes for 2013-14:

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

The LAA has adopted to present other comprehensive expenditure and the net operating cost items on the Statement of Comprehensive Expenditure as a single statement to be consistent with its parent entity. The expenditure or income included within other comprehensive expenditure are items that will not be reclassified to net operating cost as disclosed on the Statement of Comprehensive Net Expenditure.

*IAS 19 (revised 2011) Employee Benefits* (effective for accounting periods beginning on or after 1 January 2013) was amended in June 2011. The revised standard requires termination benefits to be recognised at the earlier of when the offer can't be withdrawn; and when the related restructuring costs are recognised. Termination benefits must result only as a termination of employment and are unrelated to future service. There is no impact on the LAA as termination benefits have been recognised on this basis.

*Notes to the Financial Statements continued****New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2013 and not early adopted***

New standards which are not yet effective are not expected to have a material impact on the LAA's future Accounts.

**c) Income**

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

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

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

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

**d) Expenditure**

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

**e) Cash and cash equivalents**

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

**f) Provisions**

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

***Amounts outstanding on funded cases***

The LAA recognises its liability to pay for work completed at 31 March 2014 but not yet billed. Separate models are run for each legal aid scheme, including Civil Representation,



Legal Help, Crime Higher and Crime Lower. These models are dependent on the nature of information available for each scheme. The provision for amounts outstanding on funded cases is then based on such factors as the number of outstanding cases, the elapsed time on each case and the estimated average costs derived from closed case data. The provision is based on assumptions from the models and the sensitivity of these assumptions is included in note 12 to these Financial Statements.

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

Under the terms of the Prosecution of Offences Act 1985, acquitted defendants who have applied for legal aid and been found ineligible may, in limited circumstances obtain an order from the Crown Court to recover their costs. The LAA estimates the value of unbilled costs to arrive at the amount disclosed in the Accounts as a provision. The amount is an estimate of the expenditure required to settle any obligation at the reporting period end date. In estimating the provision, the LAA has adopted prudent measurement techniques based on the latest data available.

***Dilapidations***

Provision is made for estimated dilapidation costs on leasehold buildings. The provision has been estimated with reference to the condition and location of the buildings and the requirements of the relevant lease. It has then been discounted at the HM Treasury rate of negative 1.9% (2013: negative 1.8%) for short term (up to 5 years), negative 0.65% (2013: negative 1%) for medium term (5 to 10 years) and positive 2.2% (2013: positive 2.2%) for long term leases (over 10 years).

***Legal costs***

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

***Contractual claims***

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

***g) Leased assets***

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the LAA. All other leases are classified as operating leases. Rental payments on operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight line basis over the term of the lease.

***Finance leases***

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

***Operating leases***

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

*Notes to the Financial Statements continued***h) Financial instruments*****Financial assets***

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

***Initial recognition and measurement***

Receivables are initially recognised at their gross amount adjusted to take account of the time value of money over the period in which they are expected to be collected, based on the standard HM Treasury discount rate of 2.2% (2013: 2.2%). This is described as a present value adjustment.

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

***Derecognition***

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

**Financial liabilities*****Initial recognition and measurement***

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

***Derecognition***

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

***Fair value of financial instruments***

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

An analysis of fair values of financial instruments and further details of how they are measured are provided in note 12 to these Financial Statements.

***Offsetting of financial instruments***

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

**i) Impairment of financial assets**

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

An assessment of collective impairment is made of financial assets with similar risk characteristics. For these assets, the LAA's previous experience of losses in each portfolio is used to estimate the degree of impairment on that asset class. Where such an estimate is made, impairment provisions are made to reduce the carrying value of financial assets accordingly. Further detail on the valuation model used to generate this estimate and the actual impairments against the LAA's receivables is included at note 12 to these Financial Statements.

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

Where there is objective evidence that an impairment loss exists on loans and receivables, impairment provisions are made to reduce the carrying value of financial assets to the present value of the estimated future cash flows discounted at HM Treasury's interest rate, currently 2.2% (2013: 2.2%).

#### **j) Accounting for Value Added Tax (VAT)**

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

#### **k) Third party assets**

##### ***Deposit accounts for funded clients***

Awards for damages to funded clients are initially payable to the LAA. The LAA places these funds on deposit until the final costs of a case have been calculated, when any excess of contributions and damages is paid to the funded client. These funds are accounted for as assets held on behalf of third

parties and are therefore not recognised in the Statement of Financial Position.

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

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

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

The movement in third party funds is reported in note 23 to these Financial Statements.

#### **l) Employee benefits**

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

#### **m) General Reserve**

##### ***Supply funding***

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

*Notes to the Financial Statements continued***Intra-departmental adjustment**

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

**Transfer of provision balance and in year expenditure from the MoJ for Central Funds**

Central Funds transferred from MoJ to the LAA on 1 April 2013. The transfer of the provision balance at 1 April 2013 and the expenditure incurred by the MoJ in 2013-14 is credited or debited to the General Reserve.

**n) Contingent liabilities and assets**

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

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

**o) Events after the reporting period**

In accordance with the requirements of *IAS 10 Events after the Reporting Period*, events are considered up to the date on which the Financial Statements are authorised for issue, which is

interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

**p) Assets under construction**

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

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

**q) Intangible assets**

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

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

The LAA applies a capitalisation threshold for intangible assets of £10,000 (2013: £10,000).

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

### **r) Property, plant and equipment**

Property, plant and equipment assets costing more than the capitalisation threshold of: £10,000 (2013: £10,000) are treated as capital assets. Where an item costs less than the capitalisation threshold but forms part of an asset or grouped asset, whose total value is greater than the capitalisation level, the item is treated as a capital asset.

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

### **s) Depreciation and amortisation**

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

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

### **t) Impairment of non financial assets**

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

Impairments that reflect a permanent diminution in the value of an asset, as a result of a clear consumption of economic benefit or service

potential, are charged directly to the Statement of Comprehensive Net Expenditure, with any remaining Revaluation Reserve balance released to the General Reserve.

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

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

### **u) Revaluation**

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

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

*Notes to the Financial Statements continued***v) Notional recharges*****Notional recharges from the Ministry of Justice***

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

***Notional audit fee***

The costs of the audit performed by the National Audit Office on behalf of the Comptroller and Audit General is recognised as a non cash charge in 2013-14.

**w) Statutory charge interest receivable**

Under the Legal Aid Act 1974, the Legal Aid Act 1988, the Access to Justice Act 1999, and the LASPO Act 2012, where funded clients have recovered or preserved property rather than obtaining damages, recoverable costs may be secured by a charge against the property. Under the Community Legal Service (Financial) Regulations 2000 as amended by the Community Legal Service (Financial) (Amendment) Regulations 2005 and the Civil Legal Aid (Statutory Charge) Regulations 2013, interest on the outstanding balance is currently due at 8% per annum. Interest earned on these balances is recorded as finance income and details are provided in note 8 to these Financial Statements.

**x) Pensions*****LSC No.4 Pension Scheme***

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

The LAA had no involvement with the LSC No.4 Pension Scheme from this date and consequently no pension asset or liability balances exists within their Accounts. The LSC No 4. Pension Scheme is included within the MoJ's Financial Statements.

***Principal Civil Service Pension Scheme***

The PCSPS is an unfunded defined benefit scheme although, in accordance with *FReM*, LAA Accounts for these as a defined contribution scheme. The LAA recognises contributions payable to defined contribution schemes as an expense in the year in which it is incurred, and the legal or constructive obligation is limited to the amount that it agrees to contribute to the fund.

## Note 2 - Legal Services Commission closure and creation of the Legal Aid Agency

On 1 April 2013, the LSC ceased to exist and a new executive agency, the LAA was created as a consequence of the LASPO Act 2012 and its functions and responsibilities transferred in full to the LAA. From this date, we ceased to report the CLSF and CDS separately from our LSC Administration Accounts and instead report solely under the LAA.

The 2012-13 comparatives in these Financial Statements are presented so that it appears that the new entity has always existed in its present form. A summary of the primary statements of the CLSF, CDS and LSC Administration at 1 April 2013 is presented below to show how the comparatives have been derived.

### Statement of Financial Position

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

*Notes to the Financial Statements continued***Note 2 - Legal Services Commission closure and creation of the Legal Aid Agency (continued)**

## Statement of Comprehensive Net Expenditure

	LSC Fund 31 March 2013	LSC Administration 31 March 2013	Intercompany Adjustments	LAA 1 April 2013
	£000	£000	£000	£000
<b>Administration costs</b>				
Staff costs	-	51,310	-	51,310
Administrative costs	-	56,296	-	56,296
		107,606		107,606
Administrative income	-	(808)	-	(808)
<b>Net administration costs</b>	-	106,798	-	106,798
<b>Programme costs</b>				
Programme costs	2,163,654	906	-	2,164,560
Staff costs	2,109	6,201	-	8,310
Finance costs	172	320	(139)	353
	2,165,935	7,427	(139)	2,173,223
Programme income	(240,529)	(267)	-	(240,796)
Finance income	(8,689)	(2,725)	139	(11,275)
<b>Net programme costs</b>	1,916,717	4,435	-	1,921,152
<b>Net operating costs</b>	1,916,717	111,233	-	2,027,950



### Note 3 - Segmental analysis

The LAA divides income and expenditure into the following reportable operating segments: Legal Aid Fund, Administration and Central Funds for the purpose of making operational decisions and reporting to the LAA. Administration net operating costs reflects the administration costs of running the LAA. The Legal Aid Fund is further subdivided into Legal Help, Civil Representation, Crime Lower, and Crime Higher. Central Funds net operating costs reflects the spend on orders made to acquitted defendants who have privately funded their legal representation. We have assessed these six aspects to be reportable segments under *IFRS 8 Operating Segments*.

Other non segmental results represent receivables impairment and write offs.

The operating segment's net cost of operations is measured on the same basis as the corresponding amount reported in the Financial Statements. There were no inter-segment transactions in the year (2012-13: nil).

The following table presents the net operating costs of operations by reportable operating segments for the year ended 31 March 2014:

	2013-14	2012-13
	£000	£000
<b>Legal Aid Fund</b>		
Legal Help	129,776	184,014
Civil Representation	671,122	731,534
Crime Lower	367,304	378,732
Crime Higher	541,302	559,938
Other Non Segmental*	34,780	62,360
<b>Central Funds**</b>	<b>89,070</b>	-
<b>Administration***</b>	<b>106,163</b>	111,372
<b>Net operating cost</b>	<b>1,939,517</b>	2,027,950

\* Net operating costs included within "Other Non Segmental" costs in the prior year have been reclassified to the appropriate operating segments as a result of improved management information.

\*\* Comparatives are not shown as Central Funds spend is a new expenditure stream for the LAA in 2013-14. In the prior year, the MoJ Accounts included £97.8m of expenditure for Central Funds.

\*\*\* The net operating cost for the operating segment "Administration" is not equal to the "net administration costs" in the Statement of Comprehensive Net Expenditure. The amounts disclosed in the "Administration" operating segment require inclusion of any related programme expenditure. Accordingly, £49k (2012-13: £4.6m programme expenditure) of programme income has been included in "net programme costs" in the Statement of Comprehensive Net Expenditure.

*Notes to the Financial Statements continued***Note 4 - Employment costs**

## Administration

	2013-14	2013-14	2013-14	2012-13	2012-13	2012-13
	Permanently employed staff	Other	Total	Permanently employed staff	Other	Total
	£000	£000	£000	£000	£000	£000
Salaries and wages	34,785	7,455	42,240	36,448	8,562	45,010
Social security costs	2,697	289	2,986	2,894	317	3,211
Other pension costs*	6,250	522	6,772	-	-	-
	43,732	8,266	51,998	39,342	8,879	48,221
Less recoveries in respect of outward secondments	(241)	-	(241)	(339)	-	(339)
Redundancy**	742	-	742	3,288	-	3,288
	44,233	8,266	52,499	42,291	8,879	51,170
<b>Non Executive Board Member's costs:</b>						
Fees to Non Executive	26	-	26	128	-	128
Social security costs	1	-	1	12	-	12
	27	-	27	140	-	140
<b>Total</b>	<b>44,260</b>	<b>8,266</b>	<b>52,526</b>	<b>42,431</b>	<b>8,879</b>	<b>51,310</b>

\* Employer's contributions to the PCSPS and the Partnership Pension Accounts are classified as administration or programme in line with the staff's employment costs. In the prior year, all pension costs paid by the employer into the LSC No.4 Pension Scheme were classified as programme costs.

\*\* Redundancy costs disclosed in the table relate to 12 (2012-13: 53) full time equivalent staff.

Additional employment costs of £6,018k (2012-13: £8,196k), relating to staff working on capital projects, were capitalised during the year.

Other pension costs relate to employers contributions to the PCSPS and the Partnership Pension Accounts. Further information is provided in note 5. Costs can be incurred in respect of both permanent and non permanent employees of the LAA.

Fees to Non Executive Board Members (NEBMs) include reimbursement of travel expenses from home to office and taxation paid by the LAA on these expenses.

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

## Note 4 - Employment costs (continued)

### Programme

	2013-14	2013-14	2013-14	2012-13	2012-13
	Permanently employed staff	Other	Total	Permanently employed staff	Total
	£000	£000	£000	£000	£000
Salaries and wages	1,570	47	1,617	1,602	1,602
Social security costs	134	6	140	139	139
Other pension costs	271	11	282	6,395	6,395
	1,975	64	2,039	8,136	8,136
Redundancy*	-	-	-	174	174
<b>Total</b>	<b>1,975</b>	<b>64</b>	<b>2,039</b>	<b>8,310</b>	<b>8,310</b>

\* There were no (2012-13: 2 full time equivalent staff) redundancies during the year.

The programme staff costs relate to the Public Defender Service (PDS), Criminal Legal Aid, the Defence Solicitor Call Centre and Community Legal Advice Team.

### Average number of persons employed - Administration

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

	2013-14	2013-14	2013-14	2012-13	2012-13	2012-13
	Permanently employed staff	Other	Total	Permanently employed staff	Other	Total
Directly employed	1,161	244	1,405	1,192	271	1,463
Staff engaged on capital projects	35	40	75	36	61	97
Other	-	38	38	-	43	43
<b>Total</b>	<b>1,196</b>	<b>322</b>	<b>1,518</b>	<b>1,228</b>	<b>375</b>	<b>1,603</b>

*Notes to the Financial Statements continued***Note 4 - Employment costs (continued)**

## Average number of persons employed - Programme

	2013-14	2013-14	2013-14	2012-13	2012-13
	Permanently employed staff	Other	Total	Permanently employed staff	Total
Directly employed	41	1	42	44	44
	41	1	42	44	44

The six Non Executive Commissioners' appointments in place under the LSC were terminated on the abolition of the LSC and three NEBMs were appointed to the LAA.

The average number of NEBMs in post during the year was three full time equivalent persons (2012-13: six Non Executive Commissioners). The average number of full time equivalent persons employed at 31 March 2014 includes one NEBM (2012-13: one Non Executive Commissioner).

## Compensation schemes - Administration

	2013-14	2013-14	2013-14	2012-13	2012-13	2012-13
	Number of compulsory redundancies	Number of other departures	Total number of exit packages	Number of compulsory redundancies	Number of other departures	Total number of exit packages
	£000	£000	£000	£000	£000	£000
Exit package cost band						
< £10,000	-	-	-	1	3	4
£10,000 - £25,000	-	-	-	3	4	7
£25,000 - £50,000	-	6	6	4	12	16
£50,000 - £100,000	-	5	5	10	9	19
£100,000 - £150,000	-	1	1	-	4	4
£150,000 - £200,000	-	-	-	-	2	2
£200,000 - £250,000	-	-	-	-	1	1
<b>Total number of exit packages by type</b>	-	12	12	18	35	53
<b>Total resource cost (£000)</b>	-	742	742	944	2,344	3,288

## Note 4 - Employment costs (continued)

### Compensation schemes - Programme

	2013-14	2013-14	2013-14	2012-13	2012-13	2012-13
	Number of compulsory redundancies	Number of other departures	Total number of exit packages	Number of compulsory redundancies	Number of other departures	Total number of exit packages
	£000	£000	£000	£000	£000	£000
Exit package cost band						
< £10,000	-	-	-	-	-	-
£10,000 - £25,000	-	-	-	-	-	-
£25,000 - £50,000	-	-	-	-	1	1
£50,000 - £100,000	-	-	-	-	-	-
£100,000 - £150,000	-	-	-	-	1	1
<b>Total number of exit packages by type</b>	-	-	-	-	2	2
<b>Total resource cost (£000)</b>	-	-	-	-	174	174

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

## Note 5 - Pension costs

Prior to 1 April 2013, the LSC Administration operated two pension schemes the LSC No.4 Pension Scheme and the No.3 Pension Scheme, providing benefits based on final pensionable salary. The assets of the schemes were held separately from those of the LSC, being invested in funds managed by Legal & General Investment Management Limited.

Contributions to the schemes were charged to the Statement of Comprehensive Net Expenditure so as to spread the cost of the pensions over employees' working lives with the LSC. The contributions were set by the Trustees having taken advice from the Schemes' actuary Hymans Robertson LLP.

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

From 1 April 2013, the MoJ was the new sponsoring employer of the LSC No. 4 Pension Scheme on behalf of the Secretary of State. The active members of the LSC No. 4 Pension Scheme had the option to transfer their past service accrued entitlements under the Scheme to the Principal Civil Service Pension Scheme (PCSPS) or become preserved members of the LSC No. 4 Pension Scheme.

*Notes to the Financial Statements continued***Note 5 - Pension costs (continued)**

In 2012-13, the Lord Chancellor made Transfer Scheme requirements to aid the transition to LAA. The LASPO Act 2012 included the requirement to merge the LSC No.3 Pension Scheme with the LSC No.4 Pension Scheme. Under *IAS 19 Employee Benefits*, there was no pension asset or liability (2013: nil) to transfer from the LSC No.3 Pension Scheme over to the LSC No.4 Pension Scheme at this date.

The LSC No.3 Pension Scheme was closed to new entrants and had no active members. The LAA did not contribute to the Scheme in the year ended 31 March 2014 (2012-13: nil).

There was no requirement for the LAA to pay contributions into the LSC No.4 Pension Scheme after 1 April 2013. There is no pension asset for the LSC No.4 Pension Scheme on the LAA's Statement of Financial Position (2013: nil).

Further information on the LSC Pension Scheme is provided within the MoJ's 2013-14 Accounts.

A full actuarial valuation of the LSC No.4 and No. 3 Pension Schemes was carried out at 31 March 2013 by qualified independent actuary Hymans Robertson LLP.

**Pension Scheme costs include:**

	No. 4 Scheme	No. 3 Scheme	No. 4 Scheme	No. 3 Scheme
	2013-14	2013-14	2012-13	2012-13
	£000	£000	£000	£000
Current service cost - administration	-	-	5,297	-
Termination benefits	-	-	904	-
Current service cost - CLS and PDS	-	-	194	-
	-	-	6,395	-
Past service credit	-	-	-	-
Gains on curtailment of pension scheme	-	-	-	-
<b>Total</b>	-	-	6,395	-

The LAA made no payments (2012-13: £904k) during the year to cover the cost of any (2012-13: 5) members who received termination benefits under the terms of the early retirement and early severance scheme.

## Note 5 - Pension costs (continued)

Analysis of amounts charged to other finance income:

	No. 4 Scheme	No. 3 Scheme	No. 4 Scheme	No. 3 Scheme
	2013-14	2013-14	2012-13	2012-13
	£000	£000	£000	£000
Expected return on Scheme assets	-	-	14,219	134
Interest on Scheme liabilities	-	-	(11,653)	(114)
<b>Net return</b>	-	-	2,566	20

Analysis of amounts recognised in other comprehensive expenditure:

	No. 4 Scheme	No. 3 Scheme	No. 4 Scheme	No. 3 Scheme
	2013-14	2013-14	2012-13	2012-13
	£000	£000	£000	£000
Actual return less expected return on Scheme assets	-	-	29,645	228
Experience gains and losses arising on Scheme liabilities	-	-	(9,800)	(42)
Changes in assumptions underlying the present value of the Scheme liabilities	-	-	853	14
Actuarial gain/(loss) before irrecoverable surplus	-	-	20,698	200
(Decrease)/increase in surplus*	-	-	(23,684)	(220)
<b>Total recognised in other comprehensive expenditure</b>	-	-	(2,986)	(20)

\* The surplus on the Scheme was only recoverable to the extent that the LSC could benefit from either refunds formally agreed or from future contribution reductions.

Analysis of cumulative actuarial (loss)/gain:

	No. 4 Scheme	No. 3 Scheme	No. 4 Scheme	No. 3 Scheme
	2013-14	2013-14	2012-13	2012-13
	£000	£000	£000	£000
Actuarial gain/(loss) recognised in other comprehensive expenditure	-	-	20,698	200
Actuarial (loss)/gain at the beginning of the year	-	-	(36,473)	(19)
<b>Cumulative actuarial (loss)/gain</b>	-	-	(15,775)	181

*Notes to the Financial Statements continued***Note 5 - Pension costs (continued)**

## Reconciliation of defined benefit obligation:

	No. 4 Scheme	No. 3 Scheme	No. 4 Scheme	No. 3 Scheme
	2013-14	2013-14	2012-13	2012-13
	£000	£000	£000	£000
<b>The movement in the liabilities during the year arose as follows:</b>				
Liabilities at beginning of year	-	-	(252,536)	(2,592)
Current service cost - LSC	-	-	(5,297)	-
Current service cost - CLS and PDS	-	-	(194)	-
Interest cost	-	-	(11,653)	(114)
Benefits accrued in respect of contributions by plan participants	-	-	(2,168)	-
Actuarial gains/(losses)	-	-	(8,947)	(28)
Termination benefits	-	-	(904)	-
Benefits paid	-	-	6,098	240
<b>Liability at end of year</b>	-	-	(275,601)	(2,494)

## Reconciliation of fair value of plan assets

	No. 4 Scheme	No. 3 Scheme	No. 4 Scheme	No. 3 Scheme
	2013-14	2013-14	2012-13	2012-13
	£000	£000	£000	£000
<b>The movement in the assets during the year arose as follows:</b>				
Assets at beginning of year	-	-	301,533	3,950
Expected return on assets	-	-	14,219	134
Contributions by plan participants	-	-	2,168	-
Contributions by the LSC	-	-	971	-
Actuarial gains/(losses)	-	-	29,645	228
Benefits paid	-	-	(6,098)	(240)
<b>Assets at end of year</b>	-	-	342,438	4,072
Irrecoverable surplus	-	-	(66,837)	(1,578)
<b>Net pension asset/(liability)</b>	-	-	-	-

**The Principal Civil Service Pension Scheme (PCSPS)**

The PCSPS is an unfunded multi-employer defined benefit scheme therefore the LAA is unable to identify its share of the underlying assets and liabilities. The Scheme actuary valued the Scheme as at 31 March 2007. You can find details in the Resource Accounts of the Cabinet Office: Civil Superannuation ([www.civilservice.gov.uk/pensions](http://www.civilservice.gov.uk/pensions)).



## Note 5 - Pension costs (continued)

For 2013-14, employers' contributions of £6,885k were payable to the PCSPS (2012-13: nil) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The Scheme actuary reviews employers contributions usually every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred and reflect past experience of the Scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions to Partnership Pension Accounts were £169k (2012-13: nil) and were paid to one or more of the panel of three appointed stakeholder pension providers.

Employer contributions are age related which ranged from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay.

In addition, employer pension contributions equivalent to 0.8% of pensionable pay 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 employees in the PCSPS.

No persons (2012-13: 1 person) retired early on ill health grounds; therefore the total additional accrued pension liabilities in the year amounted to nil (2013: £2k).

## Note 6 - Other administration costs

	2013-14	2012-13
	£000	£000
Accommodation and related costs	3,725	3,703
Office, Information Technology and service running costs	14,694	14,085
Staff and committee member related costs	1,767	1,928
Operating leases	3,235	4,197
External audit fee	-	308
Legal and professional costs	4,265	5,560
Service level agreements with HM Courts & Tribunals Service	7,500	9,900
Other administration costs	736	802
	<b>35,922</b>	<b>40,483</b>
<b>Non-cash costs</b>		
Amortisation	6,329	6,095
Depreciation	2,621	2,660
Notional recharge from the MoJ*	9,484	6,916
Notional audit fee	260	-
Operating lease amortisation	(183)	(138)
Finance lease charges	-	88
Loss on disposal of assets	-	192
	<b>18,511</b>	<b>15,813</b>
<b>Other administration costs</b>	<b>54,433</b>	<b>56,296</b>

\* The majority of the notional recharges from the MoJ relate to property and Information and Communication Technology costs.

*Notes to the Financial Statements continued***Note 7 - Other programme costs**

	2013-14	2012-13
	£000	£000
<b>Civil Representation</b>		
Solicitors' charges, counsel fees and disbursements	838,653	923,344
Refund of contributions	2,093	1,376
Costs of successful unassisted parties	1,361	949
	<b>842,107</b>	925,669
<b>Legal Help</b>		
Solicitors' charges, counsel fees and disbursements	138,803	183,664
Grants and Direct Services	7,012	17,400
	<b>145,815</b>	201,064
<b>Crime Lower</b>		
Solicitors' charges, counsel fees and disbursements	390,140	384,347
Public Defender Service and Grants and Direct Services	4,531	5,845
	<b>394,671</b>	390,192
<b>Crime Higher</b>		
Solicitors' charges, counsel fees and disbursements	582,355	614,549
	<b>582,355</b>	614,549
<b>Central Funds</b>		
Defence cost orders awarded in Crown and magistrates' courts	46,978	-
Interpreters and other	18,597	-
	<b>65,575</b>	-
<b>Other Non Segmental costs</b>		
Receivables write offs	14,631	30,739
Receivables impairment	20,148	25,892
Tax	149	1,521
	<b>34,928</b>	58,152
	<b>2,065,451</b>	2,189,626
<b>Non-cash costs</b>		
Provision movement for amounts outstanding on funded cases (note 17)	(47,157)	(25,939)
Provision movement for amounts outstanding on Central Funds (note 17)	23,495	-
Impairment of intangible assets	43	452
Impairment of property, plant and equipment	104	-
Provision movement for legal costs and dilapidations (note 17)	(231)	421
Discount on provisions (note 17)	32	353
	<b>(23,714)</b>	(24,713)
<b>Other programme costs</b>	<b>2,041,737</b>	2,164,913

An explanation for the changes in expenditure is included in the management commentary (page 28).

## Note 8 - Income

### Administration income

	2013-14	2012-13
	£000	£000
Administration income*	747	808
<b>Total</b>	<b>747</b>	<b>808</b>

\* The administration income is from other Government departments which have co-located within surplus LAA office space.

### Programme income

	2013-14	2012-13
	£000	£000
<b>Civil Representation</b>		
Contributions by funded clients	20,751	24,326
Costs recoverable	128,039	142,017
Recoveries from damages and statutory charge	28,593	32,533
	<b>177,383</b>	<b>198,876</b>
<b>Legal Help</b>		
Costs recoverable	2	12
	<b>2</b>	<b>12</b>
<b>Criminal cases</b>		
Crown Court recoveries	24,072	41,419
Recovery of defence costs orders	570	222
	<b>24,642</b>	<b>41,641</b>
<b>Finance income</b>		
Statutory charge interest receivable	8,444	8,689
Return on LSC No. 4 Pension Scheme (note 5)	-	2,566
Return on LSC No. 3 Pension Scheme (note 5)	-	20
	<b>8,444</b>	<b>11,275</b>
<b>Other programme income</b>		
Downwards/(upwards) revaluation of assets	-	267
	-	267
<b>Total</b>	<b>210,471</b>	<b>252,071</b>

*Notes to the Financial Statements continued***Note 9 - Reconciliation of note 10 intangibles and note 11 property, plant and equipment to Statement of Cash Flows**

	2013-14	2012-13
	£000	£000
Additions of intangible assets (note 10)	9,222	15,067
Decrease/(increase) in capital accrual	3,453	(1,186)
<b>Total intangible asset purchases per Statement of Cash Flows</b>	<b>12,675</b>	<b>13,881</b>
Additions of property, plant and equipment (note 11)	523	1,305
Decrease/(increase) in capital accrual	493	1,155
<b>Total property, plant and equipment purchases per Statement of Cash Flows</b>	<b>1,016</b>	<b>2,460</b>
<b>Total purchases per Statement of Cash Flows</b>	<b>13,691</b>	<b>16,341</b>

**Note 10 - Intangible assets**

	Assets under construction	Computer software	Total
	£000	£000	£000
Cost at 1 April 2013	25,993	37,050	63,043
Reclassifications	(1,640)	1,626	(14)
Additions	9,053	169	9,222
Disposals	-	(177)	(177)
Impairments	-	(43)	(43)
Revaluations	-	(706)	(706)
<b>Cost at 31 March 2014</b>	<b>33,406</b>	<b>37,919</b>	<b>71,325</b>
Amortisation at 1 April 2013	-	18,101	18,101
Charged in year	-	6,329	6,329
Disposals	-	(177)	(177)
Revaluations	-	(416)	(416)
<b>Amortisation at 31 March 2014</b>	<b>-</b>	<b>23,837</b>	<b>23,837</b>
<b>Net book value at 31 March 2014</b>	<b>33,406</b>	<b>14,082</b>	<b>47,488</b>

### Note 10 - Intangible assets (continued)

The assets under construction balance includes £30,143k (2013: £24,719k) of costs relating to the development of the Client and Cost Management System for the Integrated Delivery Programme (IDP).

The total additions of £9,222k includes £1,583k (2013: £5,036k) of capital accruals at 31 March 2014.

The Revaluation Reserve balance of £1,346k in Statement of Taxpayers' Equity includes £1,193k (2013: £2,120k) relating to intangible assets at 31 March 2014.

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

*Notes to the Financial Statements continued***Note 11 - Property, plant and equipment**

	Assets under construction	Fixtures & fittings	Furniture & equipment	Information technology	Total
	£000	£000	£000	£000	£000
Cost at 1 April 2013	2,958	4,913	1,679	8,567	18,117
Reclassifications	(53)	410	(410)	67	14
Additions	523	-	-	-	523
Disposals	-	(1,796)	(969)	(55)	(2,820)
Impairment	-	(6)	-	(108)	(114)
Transfers to the MoJ*	-	-	-	(2,118)	(2,118)
Transfers from the MoJ*	-	-	-	6,933	6,933
Revaluations	-	50	(1)	(146)	(97)
<b>Cost at 31 March 2014</b>	<b>3,428</b>	<b>3,571</b>	<b>299</b>	<b>13,140</b>	<b>20,438</b>
Depreciation at 1 April 2013	-	4,519	1,566	5,364	11,449
Charged in year	-	292	41	2,288	2,621
Disposals	-	(1,796)	(969)	(55)	(2,820)
Impairment	-	(10)	-	-	(10)
Transfers to the MoJ*	-	-	-	(1,635)	(1,635)
Reclassifications	-	345	(345)	-	-
Revaluations	-	46	6	(84)	(32)
<b>Depreciation at 31 March 2014</b>	<b>-</b>	<b>3,396</b>	<b>299</b>	<b>5,878</b>	<b>9,573</b>
<b>Net book value at 31 March 2014</b>	<b>3,428</b>	<b>175</b>	<b>-</b>	<b>7,262</b>	<b>10,865</b>

\* Finance leased assets with a net book value of £483k transferred to the MoJ. Hardware assets with a net book value of £4,689k and £2,244k were transferred from the MoJ on the 1 April 2013 and 14 February 2014.

The total additions of £523k includes £69k (2013: £561k) of capital accruals at 31 March 2014.

The Revaluation Reserve balance of £1,346k in the Statement of Taxpayers' Equity includes £153k (2013: £371k) relating to property, plant and equipment at 31 March 2014.

## Note 11 - Property, plant and equipment (continued)

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

### Asset financing

All intangible assets and property, plant and equipment are owned by the LAA (2013: All assets owned with the exception of IT assets with a net book value of £501k held under a finance lease).

*Notes to the Financial Statements continued***Note 12 - Financial risk identification and management**

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

**Interest rate risk**

Interest rate risk comprises two primary elements:

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

The LAA is not exposed to significant interest rate risk.

At 31 March 2014, £68.0m (2013: £66.7m) of statutory charge debt was due, the principal of which carried a fixed rate of interest. The fair value of these assets, which are not traded, is unaffected by movements in floating interest rates since it is determined by discounting the assets using the HM Treasury rate (currently 2.2%) over the expected collection period.

Money received by the LAA on behalf of funded clients is held on deposit until the case is concluded. Interest is paid to funded clients by reference to the London Inter Bank Offered Rate (LIBOR). To offset the interest payable, £9.4m of the total deposit account balance is held with Barclays Bank Plc and managed by

Barclays Wealth Division through their Liquidity Management Service. The balance is held as cash. Funds are available at 24 hours' notice. The rate earned by these instruments may fluctuate and differ from the rate paid out which is based on LIBOR. However, the short maturity period of the instruments limits any risk arising from adverse rates earned.

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

**Credit risk**

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

The immediate credit exposure of financial instruments is represented by those instruments that have a net positive fair value by counterparty at 31 March 2014. The LAA considers its maximum exposure to credit risk to be:

	2013-14	2012-13
	£000	£000
<b>Credit risk</b>		
Cash and cash equivalents	4,623	23,658
Trade and other receivables	105,549	103,144
Third party assets	18,832	20,950
	<b>129,004</b>	<b>147,752</b>



## Note 12 - Financial risk identification and management (continued)

### Cash and cash equivalents

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

As at 31 March 2014 there were no financial guarantees or third party obligations, other than amounts held as damages on deposit and Crown Court means contributions, that increased the credit risk of the financial assets set out above.

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

### Trade receivables and other current assets

The LAA has an inherent risk within trade receivables and other current assets, as the LAA is not predisposed to straight forward cash collections. The LAA recognises this risk and mitigates it in the case of statutory charge debts, where repayment of the debt may be deferred, by securing land charges and using active credit management policies to recover unsecured debts. In some cases the debt collection activities are outsourced to commercial debt collectors. The size of the risk is reflected in the receivables impairment provision which totals £207.4m (2013: £187.2m).

The majority of the LAA's trade and other receivables are the result of a statutory charge, i.e. £68.0m (2013: £66.7m) out of a total receivables balance after impairment of £105.5m (2013: £103.1m). A high proportion of these are secured on property and settlement is deferred until the property is sold. These, along with other receivables, carry an impairment provision based on expected settlement receipts.

The LAA provides for impairment of receivables based on historical cash collection experience and management assessment of likely recoveries, for each category of debt. Consideration is given to macroeconomic factors, such as the downturn in the economy, and inherent risks, such as potential changes to recoveries arising from revisions to legal aid schemes, in assessing the levels of impairment provision.

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

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

*Notes to the Financial Statements continued***Note 12 - Financial risk identification and management (continued)**

## Assumptions tested

	Assumption	Increase/(decrease) in net financial asset	
		2013-14	2012-13
		£m	£m
Maximum life of debt	+1 year	0.1	0.3
Maximum life of debt	-1 year	(0.4)	(0.4)
Income received	Evenly through the year	0.9	0.9
Predicted income receipts	+10%	8.7	8.5
Predicted income receipts	-10%	(8.8)	(8.5)

Using these reasonably possible alternative assumptions, the fair value of the financial assets at 31 March 2014 could be higher by £9.7m (2013: £9.7m) or lower by £9.2m (2013: £8.9m).

These assumptions are reviewed periodically and changed if management believe alternative assumptions are a better reflection of the underlying trends.

## Provisions for liabilities and charges

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

- Price profiles +5% to -4%
- Quantity profiles +12% to -12%
- Forecast spend +6% to -6%.

## Assumptions tested

	Increase in net financial liability		(Decrease) in net financial liability	
	Assumption	£m	Assumption	£m
Price profiles	+ 5%	3.7	- 4%	(2.7)
Quantity profiles	+ 12%	9.1	- 12%	(9.1)
Forecast spend	+ 6%	18.1	- 6%	(17.7)

## Note 12 - Financial risk identification and management (continued)

Using these reasonable alternative assumptions, the fair value of the financial liabilities at 31 March 2014 could be higher by up to £30.9m (2013: £16.1m) or lower by up to £29.5m (2013: £16.1m).

The above assumptions exclude the model variables used in the calculation of the Civil Representation WIP provision of £328.7m (2013: £313.1m).

### Civil Representation WIP provision

The Civil Representation WIP provision is calculated on a case by case basis using past patterns of activity, with multiple potential duration and cost outcomes. The calculations are segmented between the different expenditure streams and between different milestones in a case's lifecycle. The model estimates activity to the next financial event in each expenditure stream, reflecting the business realities of billing timing.

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

- Transition cost and duration profile +4% to -4%
- Billing duration +4% to -4%
- Dormancy cut off + 2%.

### Assumptions tested

	Increase		Decrease	
	Assumption	£m	Assumption	£m
Transition cost and duration profile	4%	17.3	-4%	(17.3)
Billing duration	4%	19.5	-4%	(19.5)
Dormancy cut off	2%	11.6	n/a	n/a

The above inputs are case data driven, with an overlay of management judgement, for example choosing the number of years historical case data to use in creating historical profiles. It should be noted the inherent sensitivity of the Civil Representation WIP provision is such, that relatively small percentage movements in the above inputs could lead to the estimate crystallising at a materially different amount. Furthermore, a significant proportion of certificated work does not operate on a fixed fee basis and as such, case costs can be subject to fluctuations. All assumptions are reviewed periodically and amended where sufficient evidence exists that such action is appropriate. Using these reasonable alternative assumptions, the fair value of the financial liabilities at 31 March 2014 could be higher by up to £48.4m (2013: £25.2m) or lower by up to £36.8m (2013: £58.3m).

*Notes to the Financial Statements continued***Cash and cash equivalents**

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

**Note 13 - Trade and other receivables**

Amounts falling due within one year:

	2013-14	2012-13
	£000	£000
Gross debt	312,915	290,365
Impairment provision	(207,366)	(187,221)
<b>Total</b>	<b>105,549</b>	<b>103,144</b>
<b>By component:</b>		
Contributions due from funded clients	4,271	2,771
Costs to be recovered	967	591
Statutory charge *	67,978	66,656
Damages	139	72
Amounts due from service providers	24,769	27,889
Recovery of defence costs	5,023	3,663
Prepayments and accrued income	1,225	962
Intra-departmental debtors	754	182
Other receivables	423	358
	<b>105,549</b>	<b>103,144</b>

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

The valuation of trade and other receivables includes an element of estimation which is discussed further in note 12 of these Financial Statements. An amount is included in 'amounts due from service providers' where a supplier has been paid in advance of claims and estimated work not invoiced. The valuation of work not invoiced is discussed further in note 17 of these Financial Statements.

The net amount of statutory charge debt is:

	2013-14	2012-13
	£000	£000
Statutory charge	46,529	47,083
Interest accrued to date	21,449	19,573
	<b>67,978</b>	<b>66,656</b>

### Note 13 - Trade and other receivables (continued)

Amounts falling due within one year by organisational type:

	2013-14	2012-13
	£000	£000
Other central Government bodies	1,290	516
Bodies external to Government	104,259	102,628
	<b>105,549</b>	<b>103,144</b>

### Note 14 - Cash and cash equivalents

	2013-14	2012-13
	£000	£000
Balance at 1 April	23,658	6,834
Net change in cash and cash equivalent balances	(19,035)	16,824
<b>Balance at 31 March</b>	<b>4,623</b>	<b>23,658</b>

The balances at 31 March were held at:

	2013-14	2012-13
	£000	£000
Government Banking Service	1,523	12,014
Commercial banks	3,100	11,644
<b>Total cash and cash equivalents</b>	<b>4,623</b>	<b>23,658</b>

### Note 15 - Trade and other payables

Amounts falling due within one year:

	2013-14	2012-13
	£000	£000
Amounts due to solicitors, counsel and advice agencies	148,330	149,871
Contribution refunds due to funded clients	1,951	1,625
Accruals and deferred income	133,537	145,288
Corporation and withholding taxes	68	636
Other taxation and social security costs	983	1,229
Finance lease creditors* (note 18)	-	316
Intra-departmental creditors	7,854	10,002
Other payables	1,418	656
	<b>294,141</b>	<b>309,623</b>

\* The finance lease assets were transferred to the MoJ on the 1st April 2013.

*Notes to the Financial Statements continued***Note 15 - Trade and other payables (continued)**

For all payables the carrying amount is deemed to reflect fair value.

## Amounts falling due within one year by organisational type:

	2013-14	2012-13
	£000	£000
Local authorities	18	-
Other central Government bodies	10,346	12,585
Bodies external to Government	283,777	297,038
	<b>294,141</b>	<b>309,623</b>

## Amounts falling due after more than one year:

	2013-14	2012-13
	£000	£000
Finance lease creditors * (note 18)	-	633
Accruals and deferred income	742	377
	<b>742</b>	<b>1,010</b>

\* The finance lease assets were transferred to the MoJ on the 1st April 2013.

## Amounts falling due after more than one year by organisational type:

	2013-14	2012-13
	£000	£000
Other central Government bodies	604	200
Bodies external to Government	138	810
	<b>742</b>	<b>1,010</b>

## Note 16 - Fair values

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

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

### Carrying amounts and fair values

	2013-14	2012-13
	£000	£000
Trade and other receivables	105,549	103,144
Cash and cash equivalents	4,623	23,658
Trade and other payables	(294,883)	(310,633)
<b>Total at 31 March</b>	<b>(184,711)</b>	<b>(183,831)</b>

Trade and other receivables have been discounted over the period from the reporting date to the expected date of collection. This has a material impact on their present value. To take account of this time value of money effect an estimation technique has been used, discounting all receivable balances over periods commensurate with historical cash flow patterns for each class of receivable at a rate of 2.2% per annum (2013: 2.2% p.a.). The discount rate used is the HM Treasury discount rate. The estimation technique used assumes that the timing of future cash flows will follow historical trends.

### Fair value hierarchy

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

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

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

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

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

## Notes to the Financial Statements continued

**Note 17 - Provisions for liabilities and charges**

	Provision for amounts outstanding on funded cases	Provision for amounts outstanding in relation to privately funded cases (Central Funds)	Provision for legal costs	Provision for dilapidations	Total
	£000	£000	£000	£000	£000
At 1 April 2013	624,463	-	433	2,985	627,881
Transfer of Central Funds provision from the MoJ*	-	17,100	-	-	17,100
Additions and revaluation to provision	(47,157)	24,799	65	-	(22,293)
Amounts used in the period	-	(15,796)	(224)	(278)	(16,298)
Unused amounts reversed in the period	-	(1,304)	(168)	(128)	(1,600)
Finance charges (note 7)	-	-	-	32	32
<b>At 31 March 2014</b>	<b>577,306</b>	<b>24,799</b>	<b>106</b>	<b>2,611</b>	<b>604,822</b>
At 1 April 2012	650,402	-	155	2,638	653,195
Additions and revaluation to provision	(25,939)	-	398	477	(25,064)
Amounts used in the period	-	-	(34)	(115)	(149)
Unused amounts reversed in the period	-	-	(86)	(368)	(454)
Finance charges (note 7)	-	-	-	353	353
<b>At 31 March 2013</b>	<b>624,463</b>	<b>-</b>	<b>433</b>	<b>2,985</b>	<b>627,881</b>

\*The provision for Central Funds in 2012-13 was recorded and disclosed in the Financial Statements of the MoJ. At 31 March 2013, the outstanding provision was £171 m.



## Note 17 - Provisions for liabilities and charges (continued)

### Analysis of expected timing of discounted flows

	Provision for amounts outstanding on funded cases	Provision for amounts outstanding in relation to privately funded cases (Central Funds)	Provision for legal costs	Provision for dilapidations	Total
	£000	£000	£000	£000	£000
Not later than one year	577,306	24,799	106	334	602,545
Later than one year and not later than five years	-	-	-	2,016	2,016
Later than five years	-	-	-	261	261
<b>Balance at 31 March 2014</b>	<b>577,306</b>	<b>24,799</b>	<b>106</b>	<b>2,611</b>	<b>604,822</b>
Not later than one year	624,463	-	433	469	625,365
Later than one year and not later than five years	-	-	-	952	952
Later than five years	-	-	-	1,564	1,564
<b>Balance at 31 March 2013</b>	<b>624,463</b>	<b>-</b>	<b>433</b>	<b>2,985</b>	<b>627,881</b>

The LAA estimates the value of unbilled live cases and unbilled defence cost orders each year to arrive at the amounts disclosed within the Accounts as a provision. The amount is an estimate of the expenditure required to settle any obligation at the end of the reporting date. In estimating the provision, the LAA has adopted prudent measurement techniques based on the latest data available which are discussed further in note 12 of these Financial Statements.

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

Provision is made for legal costs associated with ongoing litigation.

Provision is made for estimated dilapidation costs on leasehold buildings. The provision has been estimated with reference to the condition and location of the buildings and the requirements of the relevant lease. It has then been discounted at the HM Treasury discount rate of negative 1.9% (2013: negative 1.8%) for short term (up to 5 years), negative 0.65% (2013: negative 1%) for medium term (5 to 10 years) and positive 2.2% (2013: positive 2.2%) for long term leases (over 10 years).

The costs of the dilapidations provisions are expected to be incurred between 2014 and 2026 as each lease expires.

*Notes to the Financial Statements continued***Note 18 - Commitments under leases****a) Operating leases**

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

	Land and buildings 2013-14	Land and buildings 2012-13
	£000	£000
<b>Obligations under operating leases comprise:</b>		
Not later than one year	2,809	3,438
Later than one year and not later than five years	7,296	9,026
Later than five years	1,700	2,575
	<b>11,805</b>	<b>15,039</b>

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

**b) Finance leases**

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

	2013-14*	2012-13
	£000	£000
<b>Gross lease liabilities:</b>		
Not later than one year	-	383
Later than one year and not later than five years	-	1,013
Less future interest	-	(447)
<b>Total present value of obligations</b>	<b>-</b>	<b>949</b>
<b>The present value of finance lease liabilities is repayable as follows:</b>		
Not later than one year	-	316
Later than one year and not later than five years	-	633
<b>Total present value of obligations</b>	<b>-</b>	<b>949</b>
* The assets held under a finance lease transferred to the MoJ on the 1st April 2013.		

### Note 19 - Financial commitments

The LAA has not entered into any non cancellable contracts at 31 March 2014. In the prior year, the LAA entered into non cancellable contracts with a present value of £848k related to IT expenditure on the IDP which were due within one year.

### Note 20 - Contingent assets and liabilities

At 31 March 2014, the LAA was investigating 26 compensation claims for which there is a potential liability of £150k (2013: £52k).

The LAA has no contingent assets as at 31 March 2014. At 31 March 2013, there were four cases at varying stages of resolution for which there was a potential asset in the LSC Administration Accounts.

### Note 21 - Accountability notes

#### Losses

During the year, the LAA identified 5,652 (2013: 15,649) accounts involving losses totaling £14.6m (2013: £30.7m).

In accordance with *Managing Public Money* individual losses over £300,000 are separately disclosed. There were four (2013: two) supplier balances written off over £300,000 as a result of the suppliers going into administration with no prospect of recovery. The balances were £3,601,000, £1,385,816, £964,669 and £655,812 and the debts arose from the normal course of business.

There were no (2013: nil) funded client balances individually written off over £300,000.

There were no losses (2013: £310k) in respect to fraudulent activities.

There were no losses arising as a result of an impairment of assets. In the prior year, the LSC Administration recognised an impairment charge of £452k in the Statement of Comprehensive Net Expenditure for software licences no longer in use.

#### Special payments

Similar to the prior year, the total amount of special payments did not exceed £300k, the level at which disclosure of the value and number of ex-gratia payments is required in accordance with *Managing Public Money*.

### Note 22 - Related party transactions

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

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

During 2013-14, no Board Members or other related parties have undertaken any transactions with the LAA.

*Notes to the Financial Statements continued***Note 23 - Third party assets**

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

	31 March 2013	Gross inflows	Gross outflows	31 March 2014
	£000	£000	£000	£000
Monetary assets such as bank balances and monies on deposit	20,950	30,769	(32,887)	<b>18,832</b>

Total third party assets are comprised of the following:

**Damages**

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

	31 March 2013	Gross inflows	Gross outflows	31 March 2014
	£000	£000	£000	£000
Monetary assets such as bank balances and monies on deposit	11,883	13,193	(15,399)	<b>9,677</b>

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

	31 March 2014	31 March 2013
	£000	£000
Cash	<b>3,442</b>	555
Building society deposits	-	5,111
Pooled investment funds	<b>6,235</b>	6,217
	<b>9,677</b>	11,883

### Note 23 - Third party assets (continued)

#### Crown Court Means Test

The LAA holds CCMT contributions (see note 1k).

	31 March 2013	Gross inflows	Gross outflows	31 March 2014
	£000	£000	£000	£000
Monetary assets such as bank balances and monies on deposit	9,067	17,576	(17,488)	9,155

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

	31 March 2014	31 March 2013
	£000	£000
Cash	9,155	7,589

### Note 24 - Events after the reporting period

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

There are no subsequent events to report.





ISBN 978-1-4741-0593-6



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