



Legal Aid
Agency

Legal Aid Agency
Annual Report and Accounts
2015-16



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Legal Aid Agency **Annual Report and Accounts 2015-16**

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 7 July 2016.



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Any enquiries regarding this publication should be sent to us at Legal Aid Agency, 102 Petty France, London, SW1H 9AJ.

Print ISBN 9781474135054
Web ISBN 9781474135061
ID 24061644 07/16

Printed on paper containing 75% recycled fibre content minimum.

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

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Performance report

Chief Executive's statement



This is the third Annual Report and Accounts of the Legal Aid Agency (LAA). I am delighted with the progress we have made over the last three years. We have continued to transform legal aid and move more of our work online. This could not have been done without collaboration between our staff, providers, and the wider justice system.

I am always appreciative of our staff who have played an important role in moving the LAA forward whilst maintaining strong performance. They are our greatest asset. Our staff engagement increases year on year as we make the LAA a better place to work. As part of our efforts to transform our workplace, technology has been rolled out to enable our staff to work more flexibly and embrace smarter working.

The LAA is a forward thinking organisation which has embraced the changes and opportunities that new ways of working and improved processes can bring to us all.

I moved on from my role as Chief Executive and Accounting Officer of the LAA on 31 March 2016 and leave knowing it is in good hands under Shaun McNally's sound stewardship.

Matthew Coats

Former Chief Executive and Accounting Officer of the Legal Aid Agency
30 June 2016

I am pleased to present the Annual Report and Accounts of the LAA. I am proud to lead such a positive and forward looking organisation which has its people at the heart of everything it does.

It has been another important year for the LAA. We have continued to focus on our three Strategic Objectives as outlined in the business plan, and have made progress in our work to reform legal aid, move our transactions with providers and clients online, develop our people, and work collaboratively with our partners. The LAA has met challenges throughout the year which have enabled us to develop, whilst also taking advantage of new technologies and smarter approaches to what we do.

Strategic Objective 1: Improve casework to reduce cost, enhance control and give better customer service

There have been significant changes to how the LAA works as an organisation, including completing the transfer of over 500,000 criminal legal aid applications from Her Majesty's Courts and Tribunals Service (HMCTS) to the LAA. Alongside this, a new eForm was implemented to enable providers to submit their applications online, which has seen better than expected uptake across criminal legal aid. For civil legal aid, our Client and Cost Management System (CCMS) was rolled out and made mandatory for the online submission of civil legal aid applications and bills. Across both civil and criminal legal aid, these changes have involved working with both internal and external stakeholders to ensure we all reap the benefits of digital working.

As we have implemented these changes, our performance has been maintained in our core work to process applications and pay bills. Our customer service has been enhanced through the use of digital and cloud based systems which have helped reduce call waiting times.

Strategic Objective 2: Improve organisational capability to meet the challenges ahead, including developing and engaging our people

We strive to make the LAA a better place to work, embedding a culture that values diversity and is positive, inclusive and outward looking. I am particularly proud that we are one of the top three Civil Service organisations for Inclusion and Fair Treatment. Our staff have played a leading role in this with a number of staff volunteering to be diversity and engagement champions. In addition, the roll-out of new technology to our staff has transformed the workplace, enabled people to work more flexibly and enhanced collaboration across teams.

Investing in our staff is an important priority. This year we have focused on developing our managers through the implementation of a Management Skills Programme (MSP). We intend to build on this success by extending further opportunities for learning and development in the coming year.

Our staff remain our most valuable resource and I am proud of the hard work and dedication shown by them in their day-to-day work.

Strategic Objective 3: Build and maintain strong partnerships to secure quality provision and contribute fully to wider justice and government aims

As a key part of the Ministry of Justice (MoJ), we work closely with both our MoJ and wider Civil Service colleagues to deliver legal aid efficiently and effectively.

This year has not been without its challenges but we have continued to work in collaboration with

our providers and partners to deliver significant reforms to legal aid. We remain determined to keep strengthening our external relationships as we work to further simplify and streamline our processes.

In recent years, under Matthew Coats' leadership, the organisation has successfully transferred into the Civil Service, improved its accounting, sped up the administration of legal aid and seen an increase in the engagement of its staff. These successes have given us a strong anchor to keep improving the work of the LAA and investing in our staff. This is a strong platform for the LAA to continue to deliver more efficient and smarter services to the public and providers while supporting partner organisations in the MoJ and across government.

Shaun McNally CBE

Chief Executive and Accounting Officer
of the Legal Aid Agency
(with effect from 1 April 2016)
30 June 2016

About the Legal Aid Agency

Our purpose: Delivering legal aid efficiently and effectively as part of the justice system

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

Our purpose is underpinned by our three Strategic Objectives (SOs) which have remained consistent for the last three years:

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

Further detail on our SOs can be found on page 8 of the Performance analysis section.

These objectives have served us well and continue to provide the direction which will support our work to improve and modernise the LAA, ensure our people have the right skills and tools to carry out their roles, and to work with our partners to build a One Nation Justice system. This is part of the MoJ vision outlined in the MoJ's Single Departmental Plan:

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

What we do

The LAA administers legal aid throughout England and Wales. At the core of our work we:

- Process applications and pay bills for legal aid;
- have a commissioning function which designs, develops and tenders new contracts;
- provide independent defence representation for crime cases through the Public Defender Service; and
- have contract managers who work closely with our provider base to manage relationships across England and Wales.

All of this is supported by:

- A Finance and Digital directorate which administers payment of legal aid, assures the accuracy of payments, supports our statutory requirements for financial and performance management, and supports delivery of key change programmes and our move to digital transactions and interactions;
- a corporate function which ensures effective communications, supports our Board and Executive Team, handles escalated complaints, and answers Freedom of Information (FOI) and Data Protection Act (DPA) requests; and
- shared functions, including human resources and legal services, which provide support to the LAA, MoJ and other government departments.

The Public Defender Service (PDS)

The PDS was established in 2001 and provides a criminal defence service directly to the public. It covers the full range of criminal work in police stations, Magistrates' and Crown Courts. Representation for those under arrest or attending voluntarily at a police station is available 24 hours a day, 7 days a week.

Engagement in Wales

The LAA maintains close links with the Welsh government, in recognition of the devolved administration. This includes working directly with stakeholder groups, for example, the Criminal and Family Justice Boards in Wales, Citizens Advice Bureau Cymru, Children and Family Court Advisory and Support Service Cymru, and Shelter Cymru.

Director of Legal Aid Casework

The Legal Aid Sentencing and Punishment of Offenders (LASPO) Act 2012 ensured the decision making process for legal aid remained independent from Ministers. The Director of Legal Aid Casework (DLAC) role was created as a result of the Act. The DLAC has sole responsibility for making decisions on individual cases. The LAA Board and the Central Legal Team support the DLAC to ensure robust practices are in place to maintain the independence of the decision making process. The LAA's Chief Executive, Shaun McNally, has undertaken this role from 1 April 2016. The DLAC Report is published annually alongside the Annual Report and Accounts.

Our people

Our staff are at the heart of delivering legal aid efficiently and effectively and we strive to make the LAA a better place to work. We do this by investing in the capability and skills of our people, promoting collaborative working, and improving the working environment and our communication.

In 2015-16, changes were made to Civil Service Learning which led to the launch of a new high quality learning programme for our staff in March 2016. Our people also continue to benefit from a number of our other initiatives such as Workplace Transformation, MSP, the LAA Leadership Development Programme, and the LAA's participation in cross Whitehall talent programmes.

People survey

In 2015, overall levels of staff engagement increased from 65% to 66% and we moved up from 17th to 14th position across the whole of the Civil Service (96 organisations). The LAA maintained a high level of participation in the people survey with 85% of staff providing their views. We were in the top 10 of Civil Service organisations in six out of the nine people survey categories compared to four out of nine in 2014.

Equality and diversity

One of the LAA's key priorities is to promote the values of an inclusive culture and we are committed to equality, diversity and inclusion in both the delivery of legal aid and in our workplace. We are honoured to be in the top three Civil Service organisations for the people survey category of Inclusion and Fair Treatment.

For further information on our people, please refer to the Remuneration and staff report on page 36.

Our partners

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

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

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

Our reform programmes

The introduction of the LASPO Act 2012 reflected the government's commitment to ensure legal aid was available to those who needed it most and in cases where legal advice or representation was justified. The continued focus on ensuring a credible and efficient legal aid system was supported throughout 2015-16 by three key reform programmes:

- Legal Aid Transformation;
- Integrated Delivery Programme; and
- Crime Change Programme.

Legal Aid Transformation (LAT)

In October 2012, the Secretary of State announced the need for further savings across the MoJ and to reduce the cost of legal aid, while ensuring public confidence in the justice system. The LAT programme was introduced to deliver these reforms.

Consultations on a number of proposed reforms were published and the subsequent changes to legal aid were delivered in three different phases. The programme closed on 31 May 2016.

Integrated Delivery Programme (IDP)

The IDP has introduced an electronic way of managing civil representation, including applications, amendments and bills. This includes delivering the CCMS, a new system for civil legal aid. The CCMS comprises a web-based interface for providers, a case-working solution, and a general ledger and payment system for civil and crime, all integrated into one end-to-end system.

The system was rolled out to all civil legal aid providers on a voluntary basis from September 2014, and was mandated in phases during 2015-16. From 1 April 2016, it became mandatory to submit all civil applications online through the CCMS. Submitting both applications and bills using the CCMS, saves providers time and the cost of sending paper forms through the post.

The implementation of such a large and complex system provided challenges for both internal and external users, and throughout 2015-16 we dedicated resource to resolving issues and enhancing the system. Contract managers and the programme team continue to support providers through this transition, and a training programme has been delivered to internal LAA staff.

Over the course of 2015-16, a number of enhancements were made to the system for the benefit of users. For internal users, enhancements were delivered to the universal work queue to make work identification easier. Externally, redesigns were developed to both the means and merits assessments as well as the introduction of a new document upload function, implemented in April 2016.

Crime Change Programme (CCP)

The aim of the CCP was to modernise the processing of criminal legal aid. This included enabling all providers to submit criminal legal aid applications and bills online whilst streamlining processes and centralising the processing of all applications.

In July 2015, all criminal legal aid applications transferred from HMCTS to the LAA. Prior to the transfer, criminal legal aid applications were processed in a number of courts across England and Wales. By centralising this work in three locations, and in line with wider estates strategies, it has brought about significant savings and enhanced the quality of decision making and assurance for the LAA.

Alongside this, the introduction of a criminal applications eForm has enabled providers to submit applications for criminal legal aid online. As at April 2016, over 90% of all criminal legal aid applications were made online.

We continue to progress bringing our billing process for criminal legal aid online through partnership and joint working between the LAA and MoJ Digital. A new billing system is being developed for advocates to submit their bills online and a national roll-out has commenced.

Performance analysis

Performance summary

The main achievements of the year include:

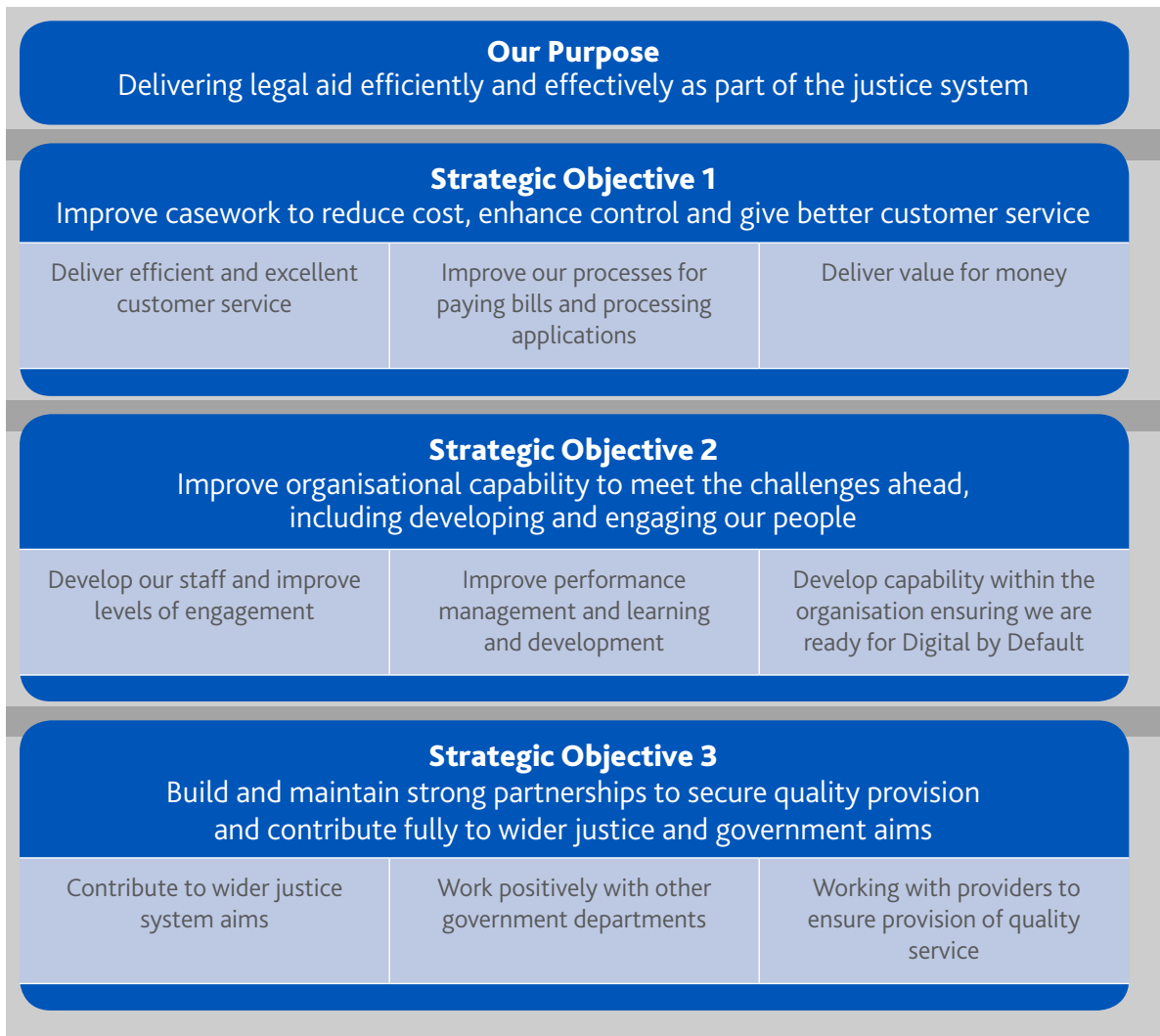
- Strong performance across all Key Performance Indicators – detailed in Our year in focus;
- significant progress with our three reform programmes – as outlined on page 6;
- a further increase in the people survey engagement score, rising from 65% to 66%;
- completion of our Workplace Transformation

programme which enables our people to work more flexibly; and

- a programme of face-to-face and e-learning courses to enhance the skills of our managers.

Our year in focus

This is our third year as an executive agency during which we have seen a number of improvements that have had a positive impact on the way we work as an organisation. This was achieved whilst continuing to deliver strong performance against our objectives.



Performance against our three Strategic Objectives (SOs)





The milestones and commitments associated with the SOs have been tracked and monitored through our performance management framework which includes four Key Performance Indicators (KPIs) that measure significant elements of our day-to-day work:

- Service delivery;
- finance & efficiency;
- people & capability; and
- reputation.

The performance management framework also measures key milestones in relation to the delivery of the LAA business plan commitments. Throughout the year the results were reported to the Executive Team, the LAA Board and the MoJ Executive Committee. Progress was communicated to all the LAA staff via our intranet site on a monthly basis.

All four KPIs for 2015-16 were achieved.









Key for delivery milestone reporting

-  Achieved
-  Largely achieved
-  Partially achieved
-  Not achieved

Strategic Objective 1:

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

Milestones aligned to Strategic Objective 1

-  Low error rates on payments to providers and eligibility assessments;
-  Deliver a high quality PDS;
-  Implement mandatory use of the CCMS;
-  Continue to digitise our services and processing;
-  Reduce processing times for assessment of eligibility to two weeks and payment within four weeks for 90% of cases;
-  Continue to increase collections through the Crown Court Means Testing (CCMT) scheme;
-  Ensure defensible and independent decision making in the role of the DLAC; and
-  Progress our Channel Strategy.

Significant progress has been made against our objective to digitise our services and move to working entirely online with our providers. This has been achieved by implementing an eForm for use in the online submission of criminal legal aid applications, mandating the use of the CCMS for the online submission of civil legal aid applications and bills from 1 April 2016, and rolling out a digital solution for submission of mediation bills.

Our Channel Strategy has progressed through implementation of a cloud based solution for our civil customer service call centre, which has helped improve performance. Our focus remains on accurate decision-making and assessment of bills at the same time as improving the speed of our processing.

The PDS has continued to provide high quality representation in criminal cases and PDS lawyers have been deployed during periods of industrial action to support the criminal legal aid market.

2015-16 was a record year for cash collections against debt in the CCMT scheme with cash collections of £15.2m (2014-15: £10.1m).

Linked to the following Key Performance Indicators:

KPI: Financial Management

- The LAA administration costs – Delivers efficiencies and cost savings required to enable the LAA to manage its operations within the administration budget we are allocated.
- Legal aid fund spend – Monitors the legal aid expenditure including the delivery of financial savings.
- Net error rate – Monitors how well we are working with providers and the accuracy with which we grant applications for legal aid and process bills.

In 2015-16 we maintained strong financial stewardship, operating within budget for both our administration and fund spend. Refer to the Financial management commentary and Financial Statements for more detail on the LAA expenditure.

Our work with providers continues to improve our financial stewardship by monitoring the accuracy with which we grant applications for legal aid and process bills. The net estimated error rate for 2015-16 is 0.8% compared with 0.7% for 2014-15. Although the error rate has improved and reduced in the majority of areas, the overall increase reflects deterioration in the Crime Lower and Civil Representation error rates. More information on how the LAA has managed the error rate during 2015-16 can be found in the Governance statement on page 33.

KPI: Operational Delivery

- Case management – Measures how quickly we process civil and crime applications, and pay provider bills.
- Contract management – Monitors the management of contract performance by providers.
- Digital services – Ensures the progress moving towards a fully digital organisation.

In 2015-16, we sustained our performance in the processing of applications and paying bills. For the year, 97% of civil applications were processed within 20 working days (target 85%) and 92% of criminal applications in 2 working days (target 90%). Combined with paying 94% of bills within a month of submission of an accurate bill (target over 90%), this has contributed to our operational delivery.

In addition, both civil and criminal application reject rates remain below the corporate targets of 15% and 10% respectively.

We continue to move towards working fully online with our providers and now over 80% of our transactions with providers (submission of applications and bills) are completed online.

Strategic Objective 2:

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

Milestones aligned to Strategic Objective 2

- ✓ Hold biannual Senior Leadership Group visits to each regional office and biannual manager meetings;
- ✓ Launch a Management Skills Programme (MSP); helping to develop our people and equip managers with the skills to lead through Workplace Transformation;
- ✓ Implement Workplace Transformation;
- ✓ Improve engagement with our staff through the national action plan and staff engagement survey;
- ✓ Encourage and support staff to utilise the #my5days learning opportunities, including Civil Service Learning courses and shadowing opportunities;
- ✓ Provide skills and leadership training for staff; and
- ✓ Continue to engage with MoJ wide capability plan to develop the right level of capability within the LAA.

We value our people and continue to strive to make the LAA a better place to work. Results of the 2015 people survey showed an improvement in our engagement score with an increase from 65% to 66%. The LAA is proud to be in the top 10 of Civil Service organisations in six out of the nine people survey categories and in particular to be third across the Civil Service for Inclusion and Fair Treatment. Following the results of the survey, we have launched our national engagement plan which focuses on strengthening our leadership, developing our people, and improving our workplace.

Learning and development is highly valued in the LAA culture. Our people are encouraged to take advantage of access to at least five days of training provided each year (#my5days). Opportunities for learning and development include mentoring, online training, face-to-face training, coaching, job shadowing, training courses, workshops and guest speakers.

The MSP launched in 2015 is further enhancing our people's skills and is empowering managers to inspire their teams. The programme focused on four different skill areas: people; change; self; and business. The training was delivered through a mixture of face-to-face, online master classes and e-learning.

As part of the Operational Delivery Profession, 59 of our staff have gained qualifications this year. The profession was launched within the Civil Service in 2013, and is predominantly for people who deal with external customers either face-to-face, by phone or in correspondence. One of the greatest benefits for our people is being able to embark on an academic journey and study for a range of qualifications. These qualifications have been developed with, and are accredited by, City & Guilds and the Chartered Management Institute.

Throughout 2015-16 we transformed our workplace as part of the government wide Workplace Transformation initiative. This has created a better working environment and provided modern workplaces and tools to enable flexible working for all staff. To improve communications with our staff, we have rolled out 'LAA TV' which is a communications channel providing staff across our offices with up-to-date news covering the LAA and the wider MoJ.

Linked to the following Key Performance Indicators:

KPI: People

- Sick absence – Monitor and reduce the number of days lost through sickness.

The average number of working days lost due to sickness for staff across the LAA, including leavers in the year was 6.9, compared to 7.1 for the year to 31 March 2015.

The revised MoJ Attendance and Management Policy, which the LAA adopts, went live on 1 February 2016 and briefings were delivered to staff to provide education and awareness on the revised policy. The revised policy is more streamlined, with a single end-to-end process for managing attendance. It provides clearer guidance to assist managers in ensuring attendance is managed appropriately and in a supportive way. It emphasises a joint responsibility for health and wellbeing at work, focusing on early and proactive interventions to support our people.

Strategic Objective 3:

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

Milestones aligned to Strategic Objective 3

- ✓ Continue to work in partnership to deliver our reform programmes; IDP, CCP and LAT;
- ✓ Identify efficiencies from working with other parts of MoJ;
- ✓ Continue to work in collaboration with other government departments;
- ✓ Move towards 100% online working with providers;
- ↔ Tender and award contracts in both civil and crime categories of law; and
- ✓ Procurement of a call centre for deployment of criminal defence (duty) solicitors

Good progress has been made in partnership with our MoJ colleagues, our providers and wider Civil Service colleagues. This includes working with providers to implement new reforms and roll-out new online systems for submission of applications and bills. The LAA has provided help, support and training to providers to ensure they have the skills and knowledge to implement the changes. The transfer of the processing of criminal legal aid applications and staff from HMCTS to the LAA has been successfully completed by engaging closely with HMCTS, resulting in savings across the MoJ.

We have ensured full coverage of contracts for legal aid work in both civil and crime throughout 2015-16. On 28 January 2016, the Lord Chancellor and Secretary of State announced a decision not to go ahead with the introduction of the dual contracting system in criminal legal aid but that the existing arrangements would be extended to ensure continuity of service until replacement contracts were procured.

Linked to the following Key Performance Indicators:

KPI: Correspondence & Customer Service

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

Our performance against the statutory targets for answering FOI and DPA requests has been maintained, with 93% of FOI requests answered in 20 days (target 90%) and 91% of DPA requests answered in 40 days (target 90%). Complaints and Members of Parliament correspondence have been dealt with in a timely fashion with over 99% dealt with in 20 days (target 90%).

Performance has continued to improve on call answering for our civil certificated helpline. Our average speed of answer has improved further to 2:35 minutes in 2015-16 compared to 2:48 minutes in 2014-15. The abandoned call rate has similarly improved and is now below 6.8% compared to 10% in 2014-15.

Sustainability report

This is our third Sustainability report as an executive agency. We are committed to achieving the economic, environmental, and social responsibility objectives of sustainable development. To reduce our environmental impact, we have worked towards the Greening Government Commitments and the government's commitments for delivering sustainable operations and procurement.

Our strategy for sustainability focuses on:

- Environmental awareness – Waste minimisation and recycling is well-practised within our day-to-day operation. We also promote responsible procurement behaviour and waste management practices. In particular, the Department for Environment, Food & Rural Affairs provides details of Government Buying Standards for a range of products. The requirements by the Government Buying Standards are mandated for use by us and are included as part of all tendering activity where they apply.
- Climate change awareness – The MoJ's Sustainable Development Team continues to manage and review high risk buildings and sites, which highlights accommodation premises susceptible to the effects of climate change, such as temperature, flooding, and other adverse climatic conditions. This enables us to evaluate energy usage to better inform our operational strategy and to better operate sustainably.

Overall, we have continued to transform legal aid, through the IDP and CCP, to move more of our work online. The benefits of working in a digital and cloud era progresses our service delivery from a paper based organisation towards a paperless organisation. For civil legal aid, the CCMS was rolled out and made mandatory for the online submission of civil legal aid applications and bills. For criminal legal

aid applications, new eForms were implemented to enable providers to submit their applications online. In addition, we have implemented digital solutions for submission of mediation bills. We have made significant progress with our work to continue to digitise our services and move to working fully online with our providers.

We have also rolled out new technology to our staff through Workplace Transformation. This initiative helped reduce the required business travel internally between the LAA offices and externally with service providers by 1,354,000kms (26.0%). In addition, efficiency has been sought through the use of shared functions, including Shared Services Connected Limited, the Central Legal Team, and Human Resource Business Partners, which provide support to the LAA, MoJ, and other government departments. This reduces the required staff, resources, office space, and emissions.

Environmental sustainability measure reporting

Scope, limitations, and estimations – This report covers the 15 premises that the LAA occupies. A number of our shared accommodations have not been accounted for due to the limitations of obtaining and/or extrapolating reliable sustainability data from service charges provided by the lessor. As these are modest in size and because shared accommodation are reported by the majority occupier, which is typically another government department, there is little benefit in extrapolating the sustainability data. This is consistent with wider government practice and with last year's report. The exclusion of these areas will not have a material impact on our sustainability reporting as a whole. Where consumption data has not been made available by providers, we have extrapolated the industry charges to our incurred financial expenditure.

Greenhouse Gas (GHG) emissions

Energy		2015-16	2014-15 ¹	2013-14 ¹	2012-13 ¹
Non-financial indicators (Tonnes of CO² equivalent (tCO²e))	Scope 1 (direct) from energy sources owned or controlled by the organisation ²	377	288	556	588
	Scope 2 (indirect) from non-renewable energy consumed which is supplied by another party ²	1,012	1,029	861	1,137
	Scope 2 (indirect) from renewable energy consumed which is supplied by another party ²	242	246	206	272
	Scope 3 from official business travel emission	268	344	279	104
	Total	1,899	1,907	1,902	2,101
Non-financial indicators (Megawatt hour MWh)	Scope 1 (direct) from energy sources owned or controlled by the organisation ²	2,042	1,566	3,019	3,193
	Scope 2 (indirect) from non-renewable energy consumed which is supplied by another party ²	2,023	2,057	1,932	2,551
	Scope 2 (indirect) from renewable energy consumed which is supplied by another party ²	484	492	462	610
	Total	4,549	4,115	5,413	6,354
Financial indicators (£000)	Gross expenditure on energy ²	279	283	335	424
	Expenditure on official business travel	896	1,459	1,247	548
	Total	1,175	1,742	1,582	972

1 We have continued to improve our system for capturing and measuring our sustainability reporting. The comparative years' results have been restated to ensure consistency.

2 Available information reported for: Cambridge, Bristol, Nottingham, Leeds, South Tyneside, Darlington, Pontypridd, Swansea, Birmingham, Cheltenham, Brighton, Liverpool, and Cardiff.

Overall, GHG emissions have decreased in comparison to previous years as a result of our commitment to reduce our operational carbon footprint.

The increase in Scope 1 emissions (gas for heating) relates to higher occupancy requiring additional heating usage. This was due to the transfer of HMCTS Criminal Applications Team and National Taxing Team becoming permanent LAA staff for the full 2015-16 year. There was also an increase in gas prices of 10% between 2014-15 and 2015-16.

Expenditure and consumption on Scope 2 emissions (electricity purchased) has largely remained consistent compared to last year due to the LAA operating at a steady state.

Travel

Travel	2015-16 Kms(000)	2014-15 Kms(000)	Change (%)	2015-16 (tCO ₂ e)	2014-15 (tCO ₂ e)	Change (%)
Motor vehicle	513	561	(8.6)	98	104	(5.8)
Rail	3,193	4,415	(27.7)	144	199	(27.6)
Flight	153	237	(35.4)	26	41	(36.6)
Total	3,859	5,213	(26.0)	268	344	(22.1)

There has been a 22.1% decrease in travel emissions on rail, road, and domestic flights. The implementation of the Workplace Transformation initiative means we have been better utilising video, teleconference and instant messaging systems, reducing the need to travel to and from meetings. These reductions can also be linked to efforts throughout 2015-16 to reduce our discretionary spend, limiting travel to only that deemed business critical. We will continue this focus going forward to keep travel spend and output emissions to a minimum.

Waste minimisation and management

Waste		2015-16	2014-15 ¹	2013-14 ¹	2012-13 ¹
Non-financial information (tonnes)	Waste sent to landfill	198	170	No information available	No information available
	Waste recycled/reused ²	149	127	159	148
	Total	347	297	159	148
Financial information (£000)	Waste sent to landfill	37	32	No information available	No information available
	Waste recycled/reused	9	8	18	17
	Total	46	40	18	17

¹ We have continued to improve our system for capturing and measuring our sustainability reporting. The comparative years' results have been restated to ensure consistency.

² Available information reported for: Cambridge, Brighton, Reading, Bristol, Cardiff, Birmingham, South Tyneside, Cheltenham, Leeds, Pontypridd, Nottingham, and Swansea.

The increase in waste sent to landfill relates to the transfer of HMCTS Criminal Applications Team and National Taxing Team to the LAA, increasing occupancy and facilities, and therefore requiring additional waste removal and disposal. We continue to provide easily accessible recycling bins in all of our offices to encourage landfill minimisation and ensure best reuse of finite resources. This has led to an increase in the waste recycled and reused by us.

Finite resource consumption

Water ²		2015-16	2014-15 ¹	2013-14 ¹	2012-13 ¹
Non-financial information (cubic meters)	Water consumption	12,292	12,189	15,096	16,499
Financial information (£000)	Water supply costs	14	14	18	19

1 We have continued to improve our system for capturing and measuring our sustainability reporting. The comparative years' results have been restated to ensure consistency.

2 Available information reported for: Nottingham, South Tyneside, Darlington, Swansea, and Cheltenham.

Our consumption and cost of water compared to last year has largely remained consistent due to the continued operation at a steady state.

Paper

Paper		2015-16	2014-15 ¹	2013-14 ¹	2012-13 ¹
Non-financial information (tonnes)	Paper consumption	31	31	37	52
Financial information (£000)	Paper supply costs	31	31	37	46

1 We have continued to improve our system for capturing and measuring our sustainability reporting. The comparative years' results have been restated to ensure consistency.

2 Available information reported for: Nottingham, South Tyneside, Darlington, Swansea, and Cheltenham.

Our consumption and cost of paper between years has largely remained consistent. This is leading towards a normalisation of our consumption. We expect to see the full impact of our SOs towards a digital paperless operation to crystallise gradually over the next four years. We procure 100% recovered waste paper for our in office printing and external publications are printed on at least 75% recycled paper.

Going forward

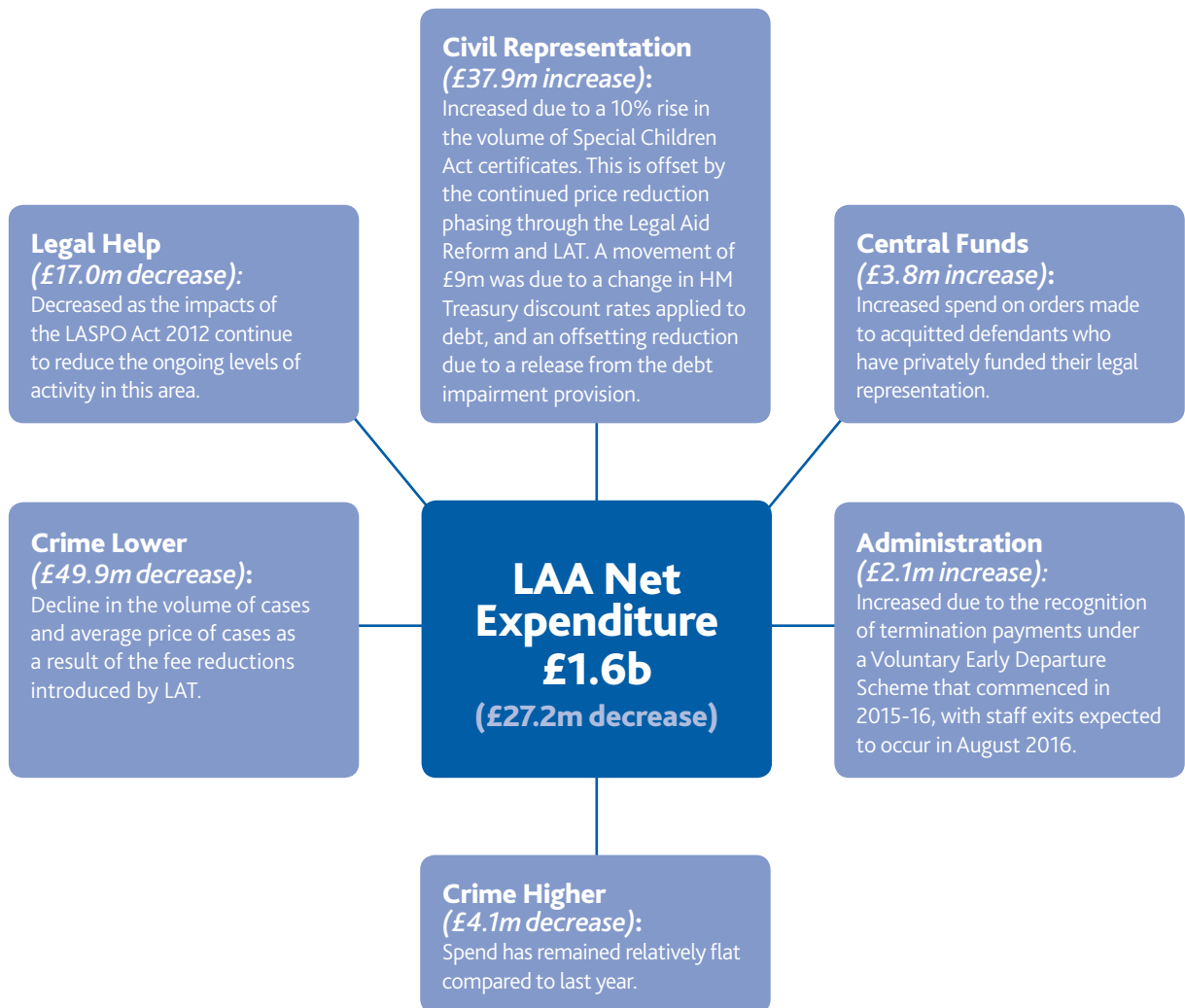
This is the third year we have produced this Sustainability report. We are continuously improving systems and controls to completely and accurately capture our environmental sustainability measures. As reporting has improved, the next goal is to establish our own baselines, benchmarks, and targets.

On our sustainability strategy going forward, we will operate closely with the MoJ's Sustainable Development Team towards the Proposed Greening Government Commitments 2016-2020. Together, we will continue to work on reducing GHG emissions, improve our waste management by reducing the overall amount of waste generated and increasing the proportion which is recycled, further reduce water consumption, and buy more sustainable and efficient products and services with the aim of achieving the best long-term, overall value for money for society.

Specifically, we will continue to target travel reductions as part of our business-as-usual operation through promotion of our digital way of working. Furthermore, we will keep driving towards paperless interactions with our providers and where we can internally.

Financial management commentary

This section provides commentary to support the Financial Statements and our performance during the past year. The Financial Statements are set out from pages 52 to 83. Note 2 to the Financial Statements on page 65 details the net operating costs for each of the segments below and notes 3-6 set out expenditure and income in detail. Below are the largest movements, comparing 2015-16 to 2014-15, in legal aid spend by scheme:



Significant items of the LAA's Statement of Financial Position:

Provision for liabilities and other charges

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

Trade and other receivables

This includes money due from clients who have received legal aid with the majority being due under a statutory charge. Statutory charges arise when legally aided clients successfully gain or retain an asset as a result of the legal assistance they receive. In these circumstances the client must repay the cost of their legal aid. 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.

Our plans for the future

Focus for the year ahead 2016-17

2016-17 is an important year as it will set the tone and direction for the next four years. The core purpose of the LAA to deliver legal aid efficiently and effectively remains unchanged. This is at the heart of all that we do and is underpinned by our three SOs, which have served us well over the last three years and remain just as relevant going forward. The LAA's future focus will be on:

- Continuing to deliver legal aid efficiently and effectively;
- driving up quality of representation for clients; and
- contributing to creating a smarter, simpler and more efficient LAA.

Linked to our three Strategic Objectives, our work in 2016-17 will focus on:

- Completing and embedding our current reform programmes and establishing the new programmes of work to support our vision to drive efficiencies and simplify legal aid;
- developing our people and building our culture; and
- working with partners across the MoJ to create efficiencies across delivery services.

And over the next four years we will:

- Look to further simplify legal aid, increase digital working and drive further efficiencies through automation of our internal processes;
- continue to commission services from quality assured organisations and make individual funding decisions independent from Ministers, in line with published directions and guidance;
- continue to pay over 90% of bills in a month and approve funding for all but the most complex cases within two weeks and we will work closely with legal aid providers and representative bodies to ensure applications and bills are right first time;
- further develop and build on the success of our PDS;
- focus on organisational development and continue to invest in our people so that we can deliver our vision, including to ensure our people are equipped with the right knowledge, support and development opportunities;
- invest further in building a common purpose and culture for the LAA and continue to embed this;
- support delivery of the Secretary of State's priorities for the MoJ, as set out in the MoJ Single Departmental Plan, as part of One Nation Justice system and contribute to cross department efficiencies as a member of the newly formed Operations Group; and
- work closely with justice system partners to improve the working of the overall justice system.

Shaun McNally CBE

Chief Executive and Accounting Officer of the Legal Aid Agency
(with effect from 1 April 2016)
30 June 2016

Accountability report

Corporate governance report

Introduction

The purpose of the Corporate governance report is to explain the composition and organisation of the LAA and how these arrangements have supported the achievement of its objectives during 2015-16.

Our Framework Document sets out the arrangements for governance, accountability, financing, staffing and operation and can be viewed in full at the GOV.UK

www.gov.uk/government/organisations/legal-aid-agency/about/our-governance#laa-board

As Chief Executive and Accounting Officer for the LAA, I am responsible for the LAA's use of resources in carrying out its functions as set out in the Framework Document. Managing Public Money as issued by HM Treasury also sets out the responsibilities of an Accounting Officer. As Accounting Officer, I am personally responsible for safeguarding the public funds for which I have charge; for ensuring propriety and regularity in the handling of public funds; and day-to-day operations and management of the LAA. In addition, I must ensure that the LAA as a whole is run in accordance with the standards, in terms of governance, decision making and financial management.

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

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

Directors' report

This report includes the composition of the LAA Board, the Audit and Risk Assurance Committee (ARAC) and the Executive Team. They are responsible for setting the LAA's strategic direction and monitoring performance against agreed objectives.

Statement of Directors' interests

Non-Executive Board Members (NEBMs) are required to declare any directorships and conflicts of interest on appointment. All Executive Board Members are also required to declare any conflicts of interest before the start of each meeting. There have been no declarations made during 2015-16.

Personal data incidents

Consideration was given to whether any incident involving personal data was so serious it should be reported to the Information Commissioner's Office. There were no incidents of such severity during the year.

The Governance statement on page 34 considers further information assurance and data security practices in the LAA.

Committee membership

Composition	Gender	LAA Board		Executive Management Team		ARAC	
		Member	Invitee	Member	Invitee	Member	Invitee
Executive Board Members	M/F	Member	Invitee	Member	Invitee	Member	Invitee
Matthew Coats, ¹ <i>Chief Executive and Chair</i>	M	✓		✓			✓
Hugh Barrett, <i>Director of Commissioning and Strategy</i>	M	✓		✓			
Catherine Little, ¹ <i>Director of Finance and Digital</i>	F	✓		✓			✓
Shaun McNally CBE, <i>Director of Case Management</i>	M	✓		✓			
Ruth Wayte, <i>Principal Legal Advisor to the LAA</i>	F	✓		✓			
Non-Executive Board Members (NEBMs)							
John Grosvenor <i>(Finance)</i>	M	✓				✓	
Andrew Lockley <i>(Legal)</i>	M	✓				✓	
Eric Gregory <i>(Commercial)</i>	M	✓				✓	
Other							
Head of Digital & IT			✓	✓			
LAA Head of Corporate Centre			✓	✓			
Moj Director Access to Justice, Policy			✓				
Moj DG Finance			✓				
Moj HR Director				✓			
National Audit Office Representative							✓
Internal Audit Representative							✓
<p>¹ Matthew Coats and Catherine Little left their posts on 31 March 2016. On 1 April 2016, Shaun McNally was appointed Chief Executive and Director of Legal Aid Casework and James McEwen was appointed Director of Finance and Digital. Matthew Coats remained as the Chair of the LAA Board.</p>							

Statement of the Accounting Officer's responsibilities

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

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the government Financial Reporting Manual 2015-16 and in particular to:

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

- The Accounting Officer confirms that, as far as he is aware, there is no relevant audit information of which the LAA's auditors are unaware, and he 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; and
- the Accounting Officer confirms that the annual report and accounts as a whole is fair, balanced and understandable and that he takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

The Principal Accounting Officer of the MoJ has designated the Legal Aid Agency Chief Executive as the Legal Aid Agency Accounting Officer. 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 Legal Aid Agency's assets, are set out in Managing Public Money published by the HM Treasury.

Governance statement

The role of Chief Executive and Accounting Officer of the LAA transferred from Matthew Coats to Shaun McNally on 1 April 2016. Shaun has been with the LAA since 2012 as the Director of Case Management. Shaun has been a crucial member of the LAA Board and Executive Team, integral in key decision-making on both strategic and operational risk and issues during 2015-16.

Introduction

As the new LAA Accounting Officer I have sought assurances from the previous Chief Executive, the LAA Board and the internal auditors. I am able to provide the assurances contained in the Governance statement based on my induction process, which included meetings with the previous Chief Executive, the NEBMs, the Executive Team and key stakeholders within the MoJ and wider criminal justice system.

I have also taken over the role of the DLAC, which was designated to me by the Lord Chancellor. I have received further assurances from the LAA's Principal Legal Advisor on advice provided in-year and on the work and decisions made by the two panels in place to provide independent review of the DLAC decisions on funding of individual cases. Please see my full report for further detail on how these functions have been carried out.

Public Accounts Committee (PAC)

The PAC's report into implementing reforms to civil legal aid through the LASPO Act 2012 focused on MoJ's evidence base for introducing the reforms and the continued need to ensure access to a sustainable and quality service for people with a legitimate need for legal aid. The LAA has now implemented its two specific recommendations, as follows:

- We have continued to undertake regular capacity reviews and other ad hoc reviews to ensure there is sufficient provision across England and Wales. As a result further tender activity has been undertaken to ensure there are no gaps in provision; and
- we continue to actively monitor the quality of provision and the routes by which it is assessed as part of our on-going commitment to ensuring a quality service. We undertake day-to-day contract management of our providers, use a range of risk based interventions such as file review and supervision checks and have an independent assurance process (peer review).

Justice Select Committee (JSC)

The LAA, maintains ongoing discussions with the JSC in conjunction with MoJ as part of our regular updates on Supply Estimates. The MoJ's response to the report into the impact of changes to legal aid under part 1 of the LASPO Act 2012 was published in July 2015. We have completed the following actions in response to the recommendations made:

- The mediation tender carried out during 2015-16 resulted in an additional 37 providers being awarded contracts to deliver services across an additional 171 locations. These locations are spread across all areas of the country. We continue to monitor the availability of access to mediation services as well as the sustainability of the individual contracts awarded where the volume of work is low;
- we undertake regular capacity reviews of supply. These reviews continue to show sufficient capacity in all categories of civil law in the majority of procurement areas;
- we implemented a revised process for case management and the Exceptional Case Funding (ECF) team when dealing with ECF cases;
- we publish the Legal Aid Statistics bulletin every three months, which includes detailed quarterly figures on applications for, and grants of, legal aid in private family law cases on the basis of evidence of domestic violence or child abuse; and
- we continue to have an on-going dialogue with our providers and we hold regular meetings with the relevant representative bodies to ensure they are updated on recent developments and have the opportunity to discuss any issues as they arise.

House of Lords Select Committee on Extradition Law

The government's response to the committee's report, titled 'Extradition: Law and Practice' was published in July 2015. The recommendations concerning legal advice, legal aid and expert evidence were considered and challenged based on limited cost benefits against current practice. For example, our implementation of eForms is already delivering improvements in timeliness of decisions.

Parliamentary and Health Service Ombudsman (PHSO)

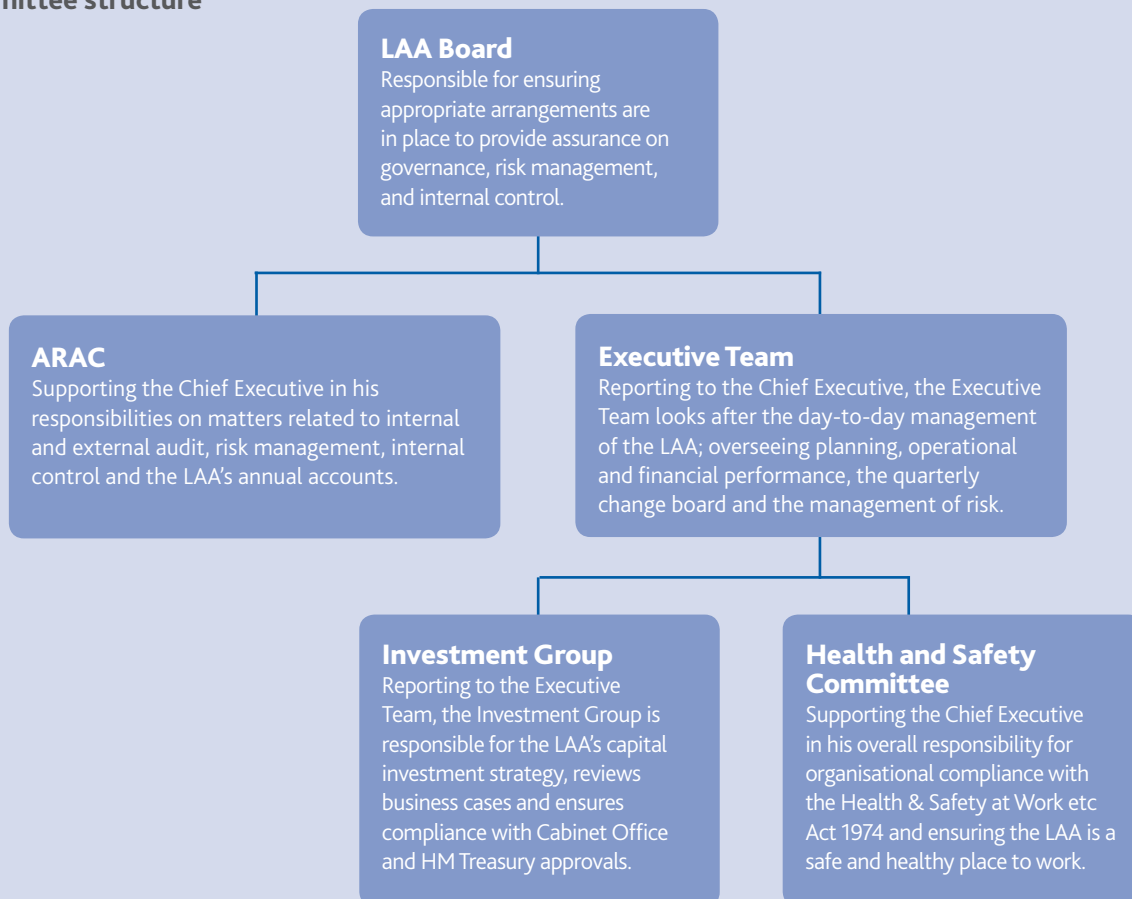
The LAA has in place a two tier complaints procedure providing an avenue for complaints to be reviewed objectively before the complainant decides whether or not to refer their matter to the PHSO through their local Member of Parliament. The LAA holds regular meetings with our PHSO liaison officer to:

- Discuss progress on individual cases;
- provide updates on changes e.g. policy changes and potential impacts for the PHSO; and
- ensure two way sharing of best practice and constructive feedback.

The LAA has also established regular meetings with the PHSO liaison officer, the Office of the Public Guardian (OPG) and HMCTS as the themes and working relationships are similar.

During 2015-16, the PHSO received 17 new complaints. They reached conclusions on 6 ongoing cases in-year (case conclusions can span multiple years and there is no direct correlation to complaints raised or concluded each financial year), with 3 being justified and 3 partly upheld. At the conclusion of an investigation the LAA will take the necessary action or carry out the recommendations made by the PHSO. This can inform changes to processes and ways of working which will have a positive impact on the provision of public services in the future.

Committee structure



Committee coverage and performance

Attendance	LAA Board ²	ARAC ²
Executive Board Members		
Matthew Coats, Chief Executive and Chair ¹	10 out of 10	
Hugh Barrett, Director of Commissioning and Strategy	10 out of 10	
Catherine Little, Director of Finance and Digital ¹	10 out of 10	
Ruth Wayte, Principal Legal Advisor to the LAA	10 out of 10	
Shaun McNally CBE, Director of Case Management	8 out of 10	
Non-Executive Board Members		
John Grosvenor (Finance)	6 out of 10	4 out of 4
Andrew Lockley (Legal)	10 out of 10	4 out of 4
Eric Gregory (Commercial)	10 out of 10	4 out of 4

1 Matthew Coats and Catherine Little left their posts on 31 March 2016. On 1 April 2016, Shaun McNally was appointed Chief Executive and Director of Legal Aid Casework and James McEwen was appointed Director of Finance and Digital. Matthew Coats remained as the Chair of the LAA Board.

2 The Board met ten times throughout the year, as well as an additional two strategy days. The ARAC met four times during the year with one additional extraordinary meeting to review and sign the 2014-15 Annual Report and Accounts.

I am supported in setting the strategic direction of the LAA by the LAA Board, the ARAC and the Executive Team. The Executive Team is supported in their decision making by the Investment Committee and the work of the Central Change Portfolio Office. In addition, the Executive Team meet quarterly to scrutinise programme delivery and outputs. The work of these committees is described below.

Legal Aid Agency Board

The LAA Board continues to support me in executing my duties as Accounting Officer. They have defined the LAA's strategic direction and challenged the effectiveness of the LAA's performance and delivery throughout the year.

The NEBMs provide specialist knowledge and expertise of the financial, commercial and legal sectors to help the Board exercise its duties in these priority areas. The NEBMs were each reappointed in 2016-17 for a three year term in line with Cabinet Office guidance on making and managing public appointments.

The Board met ten times throughout the year. There have also been an additional two strategy days, which focused on future human resource and digital strategy, as well as current topical issues including Workplace Transformation, workforce planning and the spending review. The sessions also included a forward-looking discussion on future LAA strategy, including the wider changes in the MoJ.

Monthly standing agenda items included:

- Finance, performance and risk pack: management information on performance targets, risk and opportunities; and
- change programme delivery: deep dives into LAT, the IDP, the CCP and the Channel Strategy.

Key areas of operations discussed through the year included:

- Strategic planning: spending review, business planning, stewardship, PDS utilisation, and managing risk;
- people and culture: people survey results, cultural refresh, the LAA storyboard, Workplace Transformation, workforce update; and
- information and communications technology: agile working, communications strategy, IT stability, tech cleanse and the CCMS.

The Board conducted a self-assessment of its performance in March 2016. This review confirmed that the Board continues to operate effectively, providing strategic clarity that links directly to the LAA's business plan and strategic priorities. The Board continues to monitor performance, risk and audit well, with honest and constructive challenge. The Board will undertake action planning on the results of the self-assessment, including forward planning, and maximising the opportunities for increased informal engagement between Board members.

Audit and Risk Assurance Committee (ARAC)

The ARAC supports the Accounting Officer and the LAA Board in their responsibilities on matters related to internal and external audit, corporate governance, anti-fraud policies, internal control and risk management, and the LAA's Annual Accounts.

During the year ARAC meetings were also attended by the Chief Executive and Accounting Officer, Director of Finance and Digital, Deputy Director Finance, Deputy Director Assurance, MoJ Head of Internal Audit and National Audit Office representatives.

The ARAC met four times during the year. There was one additional extraordinary meeting to review and sign the Annual Report and Accounts.

The ARAC had a key role in providing scrutiny and support on a counter-fraud investigation undertaken by the LAA Assurance team. The case was referred to the Metropolitan Police in October 2015 and the civil and criminal investigation into this matter continues. In response to this investigation, the LAA Accounting Officer commissioned an internal review to assess the adequacy of the LAA's control framework over legal aid payments. This review concluded that there was no evidence that the alleged fraud represented a systemic weakness in the LAA control environment, or that it was indicative of a wider fraud risk exposure. A number of recommendations were raised and implemented as part of this review. The ARAC is satisfied that the LAA has responded robustly to the instance of alleged fraud and has taken steps to further strengthen its management of provider risk.

The ARAC focused on the following key areas of risk and assurance:

- The overall risk and assurance hierarchy, including assurances and escalation between the LAA ARAC and the MoJ ARAC;
- counter fraud activity and investigations;
- outcome of the Chartered Institute of Public Finance and Accountancy's financial management review;
- monitoring progress and recommendations made from the internal audit reports;
- progress against the LAA's debt management action plan;
- management of error risk and action to improve controls over the accurate processing and payment of civil taxed bills;
- controls over information security and business continuity; and
- accounts production: detail, timing and improvement actions.

The ARAC completed their annual effectiveness self-assessment in March 2016, where they explored the focus of their work, links with the MoJ, the role and input of other attendees, and quality of management assurances provided throughout the year. Feedback from ARAC members and regular attendees confirmed they had delivered on the agreed actions from the previous annual review and recognised improvements in risk management and collaboration between internal audit, external audit, and finance and digital directorate. The review also informed areas of ARAC focus for next year, such as ongoing oversight of the LAA's risk management framework and appetite and information on the wider MoJ transformation programme 2016-17 onwards. The committee concluded they had healthy and open discussions, access to quality management assurances, and the appropriate blend of experience to fulfill their roles effectively.

Executive Team

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

Its key responsibilities are to:

- Develop and deliver the LAA's SOs, 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 SOs; and
- promote openness and accountability in the LAA's work.

In addition, the Executive Team along with our NEBMs (commercial expertise) meet quarterly as the LAA Change Board to provide oversight across the organisation's change programmes, which

include LAT, IDP and the CCP. They are supported in this role by the recently established Central Change Portfolio Office who enable the efficient and effective management of its portfolio by:

- Ensuring teams have access to the right resources and expertise;
- facilitating a collaborative approach to work across project teams; and
- providing assurance that risks, interdependencies, and financial and delivery targets are being managed and met.

Investment Group

The LAA Investment Group is responsible for the LAA's capital investment strategy, develops the capital programme requirement and negotiates the annual capital allocation. The capital strategy and programme requirement is presented to the Executive Team for final approval.

The Investment Group reviews business cases and project briefs for individual proposals providing a forum for challenge, ensuring alignment with strategy and affordability for the LAA. The Investment Group ensures relevant MoJ, Cabinet Office and HM Treasury approvals are in place in advance of work commencing. The Investment Group monitors capital and digital expenditure, and any associated revenue spend, for initiatives in delivery, capturing lessons learnt and best practice to inform future initiatives.

The Investment Group meets monthly. It is chaired by the Director of Finance and Digital and is attended by representatives from all directorates across the LAA. Project Managers and business owners are invited to attend to present and respond to questions on their business cases and project briefs as required.

LAA National Health and Safety (H&S) Committee

The LAA National H&S Committee have met quarterly throughout the year. The Committee is chaired by the H&S Duty Holder (Director of Case Management) and its membership includes: the LAA Corporate H&S team, a Site Lead representative, Trade Union representatives, a senior representative from each directorate, the Head of MoJ's Fire, Health and Safety team and the Senior H&S Officer from HMCTS. The focus of the National H&S Committee is to review the H&S corporate risk register and discussing new controls; agreeing training requirements, reviewing and promoting the H&S policy across the LAA. The Director of Case Management and the LAA H&S Advisor also sit on the MoJ Corporate H&S Committee which meets biannually to share good practice and manage wider departmental H&S risk.

Compliance with the Corporate Governance Code of Good Practice for Government Departments

The Board is satisfied the LAA have complied with the principles of Corporate governance in central government departments: Code of Good Practice, to the extent it applies to an executive agency. There has been one exception; the LAA does not have a dedicated Nomination and Governance Committee with responsibility to oversee talent management, succession planning, incentive schemes, and governance structures. However these responsibilities are covered by the remit of the LAA Board and the Executive Team.

MoJ provides the LAA with all the research required to inform policy development and programme evaluations. This means it is not a requirement for the LAA to own any quality assurance for business critical analytical models.

Effectiveness of internal controls

I am assisted in the stewardship of the LAA's resources and management of its assets by the Board, the ARAC, the H&S Committee, the Executive Team and its sub-committees. I receive ongoing and direct assurance from my Directors on operational delivery and control. The Executive Team, the ARAC and Internal Audit have reviewed and contributed to this Governance statement.

The system of internal control is designed to manage risk to an acceptable level rather than to eliminate all risk in relation to achieving its policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness.

Risk management

The LAA's risk management framework is a fundamental component of its governance and internal control arrangements. Risk management is integrated across the LAA and clear lines of escalation exist between business units, programme governance, the Executive Team, the ARAC and MoJ's Executive Committee.

The Executive Team are responsible for the identification, assessment and management of risks which may impact delivery of the LAA's SOs. While the ARAC conduct deep dives into risk reporting and controls at their meetings.

Our risk management approach was re-launched at the start of 2015-16 and included risk workshops with the Executive Team and Deputy Directors. The LAA's Assurance Team are responsible for the governance of the LAA's risk management policies, including specialist areas of risk including fraud, business continuity, H&S and security support the delivery of an effective and integrated corporate risk management approach.

Our risk management approach has provided me with assurance over the timely identification and escalation of risk to the corporate risk register. Key delivery risks managed throughout the year include reducing the likelihood of error arising in the legal aid fund and reducing the potential impact of wider government policy such as the residence test and universal credit through strategic forward planning.

Significant and newly identified risks we have managed in year included:

- The risk that IT disruptions impact operational performance. As almost 80% of the LAA's transactions are now online, these IT disruptions can impact the submission and processing of applications and payments for legal aid; impacting staff morale, service to the public and stakeholder relationships. A number of mitigating actions have been undertaken to stabilise our systems and maintain service to both internal and external users. Key actions include point investment on infrastructure, establishing an incident management/user support hub to reduce resolution time and develop cross-supplier working; investment in our tech cleanse project which successfully reduced outages by 50% by shoring up weaknesses in the LAA systems, and regular direct staff communications (intranet and email) on status of information communication technology solutions and investment plans from the Director of Finance and Digital;
- during 2015-16 there have been issues with the payment run process. Work is ongoing with the LAA's IT providers to improve the resilience of the system and additionally a full review of processes and controls around the payment run will take place to enhance the overall control environment;

- the risk of providers disrupting the operation of the criminal justice system in opposition to reforms. This risk materialised in the summer of 2015 when a significant number of solicitors and barristers took disruptive action. The LAA was able to cover most cases in collaboration with the courts and police forces, ensuring that a near normal service operated. In order to encourage greater efficiency in the provision of criminal legal aid litigation services the coalition government decided to adopt a system known as 'dual contracting'. Under the dual contracting system, two types of contracts were to be awarded to criminal legal aid providers known as 'own client' and 'duty' contracts. The 'own client' contracts were successfully tendered in 2014, with the 'duty' contracts tendered during 2015. However, two significant developments occurred after the beginning of the tender. Firstly, thanks to economies made elsewhere in the department, HM Treasury gave MoJ a settlement which allowed greater flexibility in the allocation of funds for legal aid. Secondly, it became clear, following legal challenges mounted against the tender process, that there would have been problems in pressing ahead as initially proposed. In January 2016, to provide stability to the market Ministers decided not to go ahead with the introduction of the dual contracting system and suspended, for a period of 12 months from 1 April 2016, the second fee cut for criminal litigators which was introduced in July 2015. This presented an operational challenge to the LAA given the amount of work that had already been undertaken in preparation for the new contracts. However, the LAA responded by awarding contingency contracts to ensure a continuous supply of legal aid services until replacement contracts come into force; and
 - the risk of legal challenge to the LAA decision making impacts reputation and delivery. We continue to receive challenges to our decision making under the LASPO Act 2012 and the implementation of our LAT programme. To control and manage the impact of this risk, we have worked closely with MoJ policy colleagues to ensure contingency plans are considered and in place, in the event of a successful challenge against us. Preventative actions available to us include:
 - collaboration with the MoJ in the Joint Litigation Strategy Group to agree how to best conduct cases to minimise risk;
 - legal oversight and advice from leading counsel (as required) and the Government Legal Department; and
 - appropriate legal input into the LAA decisions, enhanced scrutiny of high profile/ public interest decisions.
- Error rate**
- The complexity of legal aid provision means the inherent risk of error in the legal aid fund as a result of incorrect assessments, or inaccurate payments, is continually scrutinised and managed as part of our stewardship arrangements. Our application and payment processes have been subject to ongoing change as a result of legal aid transformation and taking on new areas of work. We continue our focus on reducing error in a stable and sustainable way by working closely with our providers, contract managers, case managers, finance and digital colleagues to identify and address root causes and strengthen both internal controls and provider compliance. In addition, we review and recover irregular payments from clients and providers. Specific findings and corrective actions taken in-year include:
- Increased error in Civil Representation in the

first quarter of 2015-16, prompting a range of mitigating actions including increased auditing, control improvements and provider education. This saw the error rate decrease each month from July 2015;

- Crime Lower gross error increasing from 1.5% in 2014-15 to 2% in 2015-16. This increase did not arise until late in 2015-16 so our mitigations will not have an impact until 2016-17. Mitigations include increased auditing of providers and additional recovery activity. Additionally, the LAA is working with providers and representative bodies to ensure that guidance on preventing common errors is highlighted to all relevant parties; and
- error has reduced in Eligibility and we continue to have zero net error in Crime Higher and Legal Help.

In 2015-16, the estimated gross error was £19.0m (2014-15: £19.3m). We have sustained our focus on recovering overpayments of legal aid, which has helped reduce our gross error to a net position in 2015-16 of £12.9m (0.8% of expenditure). Due to the issues explained above, this is a slight increase compared to the 2014-15 net error of £12.3m (0.7% of expenditure).

While the increases highlighted above require our focused attention, the LAA is confident that its stewardship actions already in place and those planned will lead to a reduction in error for the next period.

Fraud prevention

In 2015-16 the LAA continued to apply its risk based approach to preventing, identifying and investigating suspected fraud. We work closely with MoJ Counter Fraud and Development Group, the National Fraud Initiative and Cabinet Office on a range of fraud detection and prevention measures.

We take the robust management of public funds very seriously, with the most significant counter-fraud activities given active attention by the LAA Board and ARAC. Our fraud policy and counter-fraud strategy are reviewed annually, with the fraud action plan and counter-fraud activity reported monthly.

We raise awareness of fraud amongst our people and stakeholders through the use of presentations, intranet articles and advice. We continue to foster close working relationships with the Department of Work and Pensions, Solicitors Regulation Authority, Her Majesty's Revenue and Customs (HMRC) and HMCTS to gather intelligence, share data and better inform our prevention and prosecution actions. We collaborate with law enforcement agencies and the CPS to ensure national file standards and practice are followed.

The LAA's counter fraud activity during 2015-16 resulted in the recovery or preservation of £1.9 million of public funds compared to £1.6 million in 2014-15.

Whistleblowing

Our people have access to MoJ's departmental-wide whistleblowing policy and support network. This provides access to independent officers, who support the individual in raising their concerns. There have been no reported whistle blowers using this route.

Information assurance and data security

The LAA's Director of Finance and Digital is the LAA's Senior Information Risk Owner (SIRO), and sits on the MoJ SIRO Board where risks can be escalated. The LAA SIRO is supported in his role by information assurance specialists and a network of Information Asset Owners, who are responsible for identifying and managing information assets within their operating area.

In 2015-16, there were 358 personal data related incidents reported and investigated in line with our agreed reporting procedures.

Summary of personal data related incidents in 2015-16:

Category	Nature of incident	Total
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises	99
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises	29
III	Insecure disposal of inadequately protected electronic equipment, devices or paper	0
IV	Unauthorised disclosure	230
V	Other	0
Total incidents recorded		358

The LAA takes information security very seriously and investigates all incidents to ensure that root causes are identified and corrected where possible. In addition, the ARAC challenges our performance on incident management providing direction and oversight. The LAA classifies security incidents by impact, using a critical, high, medium and low classification. During 2015-16, 94.1% of all security incidents were classified as low; 2.5% as medium; 3.1% as high; and 0.3% as critical impact and none were considered reportable to the Information Commissioner's Office. The total number of incidents during 2015-16 represents less than 0.0002% of our transaction volume.

Head of Internal Audit opinion

The Head of Internal Audit has provided a moderate level of assurance, based on the internal audit work completed and his knowledge of the governance, internal control and risk management frameworks within the LAA. The Head of Internal Audit stated that the LAA has many strong elements in place and generally has a good level of adherence to its agreed policies and intended controls. He also took into account the LAA's detection of and effective response to a suspected significant fraud.

Conclusion

I am confident this statement provides a comprehensive account of the governance, risk management and control arrangements we have embedded within the LAA. The success of these arrangements is due to the people and processes in place, which have ensured the LAA has met its business objectives.

I am delighted to have taken over as Chief Executive of the LAA and to have the opportunity to build on the last four years and the improvements Matthew Coats has delivered. I am committed to continuing on our drive to deliver more efficient, smarter services to the public and to providers and to ensuring that the LAA remains the great place to work that it is today.

Signed for and on behalf of the Legal Aid Agency

Shaun McNally CBE

Chief Executive and Accounting Officer of the Legal Aid Agency
(with effect from 1 April 2016)
30 June 2016

Remuneration and staff report

This chapter summarises the LAA's policy on remuneration of Executive Board Members, Non-Executive Board Members (NEBMs) and staff; it also provides details of actual costs and contractual arrangements.

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

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

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

The tables in this report have been subject to audit by the external auditor, the Comptroller and 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.

Further information about the work of the Civil Service Commission can be found at:

www.civilservicecommission.org.uk

Performance process

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

Total amount of salary and fees

Salary and allowances cover 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 they are subject to taxation and any ex-gratia payments. It does not include amounts which are a reimbursement for 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.

The benefits in kind stated for Executive and NEBMs are estimates, the final values are to be agreed between the LAA and HMRC, and paid using a Pay As You Earn Settlement Agreement.

Bonus payments

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2015-16 relate to the performance in 2014-15 and the bonuses reported in 2014-15 relate to the performance in 2013-14.

Pension related benefits

Section 229 of the Finance Act 2004 determines the maximum annual level of pension savings that can be accrued under a defined benefit arrangement before any taxation is charged. The amount of savings shown in Table A is the increase in the value of the individual's promised benefits over the pension input period (which is the financial year for the LAA). Any increase is the difference between the value of the individual's benefits at the start of the pension input period (1 April 2015) and the value of the individual's benefits at the end of the pension input period (31 March 2016); 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

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

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

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

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

Executive Board Members

The Chief Executive and all Executive Board Members followed the PMR process highlighted in the performance process section on page 36. 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.

Table A: Senior employees in post at 31 March 2016 - Employment costs

Executive Board Members	2015-16					2014-15				
	Total amount of salary and fees (in bands of £5,000)	All taxable benefits (to nearest £100)	Bonus Payments (in bands of £5,000)	Pension related benefits (to nearest £1,000)	Total (to nearest £1,000)	Total amount of salary and fees (in bands of £5,000)	All taxable benefits (to nearest £100)	Bonus Payments (in bands of £5,000)	Pension related benefits (to nearest £1,000)	Total (to nearest £1,000)
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Matthew Coats¹ <i>LAA Chief Executive and Director General of MoJ Corporate Services (Left 31 March 2016)⁵</i>	140-145	-	-	77	220-225	140-145	0.1	10-15	62 ⁶	220-225
Hugh Barrett <i>Director of Commissioning and Strategy</i>	140-145	-	-	40	180-185	140-145	-	10-15	32	185-190
Catherine Little <i>Director of Finance and Digital (Left 31 March 2016)⁵</i>	95-100	-	-	38	135-140	90-95	-	-	34	125-130
Shaun McNally CBE <i>Director of Case Management (Appointed CE 1 April 2016)⁵</i>	90-95 ²	42.9 ³	10-15	36	180-185	90-95 ²	53.1 ³	10-15	11	165-170
Ruth Wayte⁴ <i>Principal Legal Advisor to the LAA</i>	95-100	-	-	39	135-140	95-100	-	-	24	120-125

- 1 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.
- 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, this is the last year that this allowance will be applied.
- 3 As Director of Case Management, the post covers all Case Management teams in regional 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 Ruth Wayte is remunerated through a third party agency.
- 5 Matthew Coats and Catherine Little left their posts on 31 March 2016. On 1 April 2016, Shaun McNally was appointed Chief Executive and Director of Legal Aid Casework and James McEwen was appointed Director of Finance and Digital.
- 6 Amounts have been restated as revised information has been received during the year from our pension provider.

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

	2015-16	2014-15
Band of highest paid Executive Board Member's total remuneration (£000)	140-145	155-160
Median total remuneration (£)	21,982	22,181 ¹
Ratio	6.5 : 1	7.1 : 1
¹ Amounts have been restated as revised information relating to LAA staff have been received during the year.		

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

The banded remuneration for the highest paid Executive Board Member in the LAA in the financial year 2015-16 was £140k-145k (2014-15: £155k-160k). This was 6.5 (2014-15: 7.1) times the median remuneration of the workforce, which was £21,982 (2014-15: £22,181).

Staff remuneration ranged from £10k-15k to £190k-195k (2014-15: £10k-15k to £190k-195k). These figures exclude any severance pay in respect of compulsory redundancies and voluntary early departures disclosed in the staff costs table on page 44.

In 2015-16, one contractor (2014-15: one) received banded remuneration of £190k-195K 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 C: Executive Board Members – Employment contracts

Executive Board Members	Contract start date	Term served (years)	Notice period (months)
Matthew Coats ¹	27 February 2012	4	3
Hugh Barrett	1 December 2008	7	3
Catherine Little ¹	1 April 2014	2	3
Shaun McNally CBE ¹	22 October 2012	3	3
Ruth Wayte	7 July 2003	12	3
¹ Matthew Coats and Catherine Little left their posts on 31 March 2016. On 1 April 2016, Shaun McNally was appointed CE and Director of Legal Aid Casework and James McEwen was appointed Director of Finance and Digital.			

Civil service pension benefits

Introduction of Alpha

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or Alpha, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher).

From that date all newly appointed civil servants and the majority of those already in service joined Alpha. Prior to that date, civil servants participated within the four sections of the PCSPS, 3 providing benefits on a final salary basis (Classic, Premium or Classic Plus) with a normal pension age of 60; and one providing benefits on a whole career basis (Nuvos) with a normal pension age of 65.

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

All members who enrolled into Alpha will have their retained PCSPS benefits 'banked'. Members with earlier benefits in one of the final salary sections of the PCSPS will have those benefits based on their final salary when they leave Alpha. (The pension figures quoted for officials show pension earned in PCSPS or Alpha – as appropriate. Where the official has benefits in both the PCSPS and Alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.)

PCSPS funding

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium, Classic Plus, Nuvos and Alpha are increased annually in line with Pensions Increase legislation.

Employee contribution rates

Employee contributions are salary-related and range between 3% and 8.05% of pensionable earnings for members of Classic (and members of Alpha who were members of Classic immediately before joining Alpha) and between 4.6% and 8.05% for members of Premium, Classic Plus, Nuvos and all other members of Alpha.

Pension scheme benefits

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

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

Classic Plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per Classic and benefits for service from October 2002 worked out as in Premium.

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

Benefits in Alpha build up in a similar way to Nuvos, except that the accrual rate is 2.32%.

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

Partnership pension account

Members joining from October 2002, had the option to either contribute to a 'money purchase' stakeholder pension with an employer contribution (Partnership pension account) or to one of the defined benefit arrangements within the PCSPS.

The Partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% up to 30 September 2015 and 8% and 14.75% from 1 October 2015 (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary up to 30 September 2015 and 0.5% of pensionable salary from 1 October 2015 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. Further details about the Civil Service pension arrangements can be found at:

www.civilservicepensionscheme.org.uk

Table D: Executive Board Members – Pension costs for the year ended 31 March 2016

	Total accrued pension payable at age 60 at 31 March 2016 and related lump sum	Real movement in pension and related lump sum payable at age 60	CETV at 31 March 2016 ³	CETV at 31 March 2015	Real increase in CETV
	£000	£000	£000	£000	£000
Matthew Coats ¹	Pension 50-55 Lump sum 0	Pension 2.5-5 Lump sum 0	843	721 ⁴	48
Hugh Barrett ²	Pension 20-25 Lump sum 0	Pension 2.5-5 Lump sum 0	438	364	39
Catherine Little ¹	Pension 5-10 Lump sum 0	Pension 0-2.5 Lump sum 0	56	35	8
Shaun McNally CBE ¹	Pension 30-35 Lump sum 95-100	Pension 0-2.5 Lump sum 0-2.5	588	519	16
Ruth Wayte ¹	Pension 5-10 Lump sum 0	Pension 0-2.5 Lump sum 0	78	48	19

1 Matthew Coats, Catherine Little, Ruth Wayte and Shaun McNally have transitioned to the Alpha scheme of the PCSPS during the period 1 April 2015 to 31 March 2016.
2 Hugh Barrett is a member of the Premium scheme of the PCPS.
3 The factors used to calculate the CETV were reviewed by the scheme actuary in 2015, so the tables of factors used to calculate the CETV in 2015 are not the same as those used to calculate the CETV in 2016.
4 Amounts have been restated as revised information has been received during the year from our pension provider.

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 2015-16. They hold office until the end of the period for which they were appointed.

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

Employment costs – NEBMs

Table E: NEBMs in post at 31 March 2016 – employment costs

Non-Executive Board Members	2015-16		2014-15	
	Total amount of fees	All taxable benefits ²	Total amount of fees	All taxable benefits ²
	£000	£000	£000	£000
John Grosvenor <i>Audit NEBM and Chair of the LAA Audit Committee</i>	10.4 ¹	0.6 ³	10.4 ¹	0.5 ³
Eric Gregory	8.0	1.1 ³	8.0	0.9 ³
Andrew Lockley	8.0	2.1 ³	8.0	1.3 ³

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.

3 For the NEBMs the travel and subsistence expense claims are, under the HMRC rules, subject to Income Tax and National Insurance, this is paid by the LAA using a PAYE Settlement Agreement.

Table F: NEBMs – employment contracts

Non-Executive Board Members	Contract start date	Term served (years)
John Grosvenor	1 November 2012	3
Eric Gregory	1 January 2013	3
Andrew Lockley	31 January 2013	3

All NEBMs received three year contract extensions during 2015-16. No NEBMs left the LAA during 2015-16.

Table G: Staff Costs for the year ended 31 March 2016

	2015-16	2015-16	2015-16	2014-15	2014-15	2014-15
	Permanently employed staff	Other	Total	Permanently employed staff	Other	Total
	£000	£000	£000	£000	£000	£000
Salaries and wages	42,964	7,579	50,543	40,193	4,946	45,139
Social security costs	3,233	193	3,426	3,100	230	3,330
Other pension costs	8,030	445	8,475	7,092	441	7,533
	54,227	8,217	62,444	50,385	5,617	56,002
Less recoveries in respect of outward secondments	(333)	-	(333)	(214)	-	(214)
Redundancy ¹	7,063	-	7,063	1,169	-	1,169
	60,957	8,217	69,174	51,340	5,617	56,957
Non-Executive Board Members costs:						
Fees to Non-Executive Board Members	29	-	29	26	-	26
Social security costs	1	-	1	1	-	1
	30	-	30	27	-	27
Total	60,987	8,217	69,204	51,367	5,617	56,984

¹ Redundancy costs disclosed in the above table relates to 206 (2015: 34) full time equivalent staff, and an early departure provision.

Overall, staff costs increased by £12.2m compared to last year. £3.0 million relates to HMCTS Criminal Applications Team and National Taxing Team become permanent LAA staff for the full 2015-16 year. Another £3.3 million relates to IT staff costs from changes in the Digital Team structure. The remaining £5.9 million relates to the Voluntary Early Departure Scheme which was undertaken during the year.

Additional employment costs of £3,564k (2014: £7,431k), relating to staff working on capital projects, were capitalised during the year.

Other pension costs relate to employer contributions to the PCSPS and Partnership Pension Accounts. Costs can be incurred in respect of both permanent and non-permanent employees of the LAA.

Fees to NEBMs include reimbursement of travel expenses from home to office and taxation paid by the LAA on these expenses.

Table H: Average number of persons employed

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

	2015-16	2015-16	2015-16	2014-15	2014-15	2014-15
	Permanently employed staff	Other	Total	Permanently employed staff	Other	Total
Directly employed	1,363	114	1,477	1,276	145	1,421
Other	-	104	104	-	63	63
Staff engaged on capital projects	35	30	65	36	52	88
Total	1,398	248	1,646	1,312	260	1,572

The average number of NEBMs in post during the year was three full time equivalent persons (2014-15: 3). The average number of full time equivalent persons employed during 2015-16 includes one NEBM (2014-15: 1).

Table I: Senior Civil Service (SCS) staff by band*

	Male	Female
SCS Pay band 1	2	5
SCS Pay band 2	3	1
SCS Pay band 3	1	-

* These numbers include the members of the Executive Team

Staff composition

At 31 March 2016, from the gender data available, the LAA consisted of 925 female and 657 male permanent employees.

Equality and Diversity

We aim to attract and retain a representative workforce which understand the needs of the diverse population we serve and are able to use

this knowledge to improve how we deliver legal aid. The LAA has duties under the Equality Act 2010 to eliminate discrimination, harassment and victimisation, advance equality of opportunity and foster good relations. We ensure this applies to all of the functions across the LAA.

We have appointed a diversity champion within our Executive Team who supports and champions the diversity priorities of the LAA, supported by a network of champions across the LAA.

The diversity priorities for the LAA are to:

- Ensure leadership promotes equality, diversity and inclusion;
- improve support for staff with a disability;
- build an inclusive culture towards different working patterns;
- support the diverse representation of staff at senior grades; and
- improve the capability of staff to take account of the equality duty to enable us to efficiently commission and administer legal aid.

In 2015-16 we were winners at the 2015 National Employee Awards – Diversity Category and we have also:

- Delivered workshops promoting greater understanding of equality, diversity and inclusion;
- raised awareness of bullying and harassment issues to empower staff to take action where necessary; and
- provided regular 'focus of the month' updates to raise awareness and understanding on particular medical conditions.

We report on specific actions under the MoJ Equality Objective framework, details of which are available at:

www.gov.uk/government/publications/ministry-of-justice-equality-objectives-2012-2016

www.gov.uk/government/publications/diversity-report-2014-to-2015

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 Policies 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.

Sickness absence data

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

	Civil Service Benchmark	LAA Benchmark	2015-16	2014-15	2013-14
AWDL	7.3	7.3	6.9	7.1	7.6

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

	2015-16	2015-16	2015-16	2014-15	2014-15	2014-15
	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
Exit package cost band						
< £10,000	-	25	25	-	1	1
£10,000 - £25,000	-	65	65	-	8	8
£25,000 - £50,000	-	80	80	-	19	19
£50,000 - £100,000	-	35	35	-	5	5
£100,000 - £150,000	-	1	1	-	-	-
£150,000 - £200,000	-	-	-	-	1	1
Total number of exit packages by type	-	206	206	-	34	34
Total resource cost (£000)	-	6,747	6,747	-	1,169	1,169

Redundancy and other departure costs have been agreed in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the LAA has agreed early retirements, the additional costs are met by the LAA and not by the Civil Service Pension Scheme. Ill health retirement costs are met by the pension scheme and are not included in the table.

Consultancy costs

Expenditure on consultancy in 2015-16 was £34k (2014-15: £93k).

Off-payroll engagements

All off-payroll engagements as of 31 March 2016, for more than £220 per day and that last for longer than six months.

Number of existing engagements as of 31 March 2016	16
Of which:	
Number that have existed for less than one year at time of reporting	1
Number that have existed for between one and two years at time of reporting	13
Number that have existed for between two and three years at time of reporting	2
Number that have existed for between three and four years at time of reporting	-
Number that have existed for four or more years at time of reporting	-

All new off-payroll engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016, for more than £220 per day and that last for longer than six months.

Number of new engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016	8
Number of the above which include contractual clauses giving the Department the right to request assurance in relation to income tax and National Insurance obligations	8
Number for whom assurance has been requested	8
Of which:	
Number for whom assurance has been received	6
Number for whom assurance has not been received ¹	2
Number that have been terminated as a result of assurance not being received	-
<small>1 The contractors disclosed above as having not provided assurance have subsequently left the LAA. As assurance was not provided the LAA has referred these individuals to HMRC.</small>	

Off-payroll engagements of Board members, and/or, senior officials with significant financial responsibility, between 1 April 2015 and 31 March 2016.

Number of off-payroll engagements of Board members, and/or, senior officials with significant financial responsibility, during the financial year	-
Number of individuals that have been deemed "Board members, and/or, senior officials with significant financial responsibility", during the financial year. This figure should include both off-payroll and on-payroll engagements	8

Parliamentary accountability disclosures

Losses and special payments - audited

Losses

	2015-16		2014-15	
	Volume	£000	Volume	£000
Write-offs	4,217	9,265	2,457	6,396
Constructive loss	1	556	-	-
Special payments	81	955	-	-
Total value of losses	4,299	10,776	2,457	6,396

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

There were three (2015: nil) supplier balances written off over £300,000. The balances were £320,513, £347,356 and £374,250 and the debts arose from the normal course of business. There were no (2015: nil) funded client balances individually written off over £300,000.

Constructive loss

On 28 January 2016, the Secretary of State for Justice announced the abandonment of the criminal legal aid tender. This resulted in a total constructive loss of £556k for additional resources required to support the assessment of tender applications, and external legal costs for the creation of contracts and advice on the procurement process.

Potential loss

There is an ongoing investigation into a data anomaly between the legal aid claims made by a provider firm and those that could be supported by tribunal and/or patient records. This was identified through the LAA's routine contract management activity and triggered an official investigation that has been referred to the Metropolitan Police.

Action is being taken to understand the cause of the anomaly. In any event, the LAA is taking steps pursuant to the mechanisms in its Standard Civil Contract to recover sums paid to the provider firm. Any amount which cannot be recovered may give rise to a loss in future accounts.

Special payments

The LAA agreed to reimburse £955k worth of legal costs incurred by bidders that were challenging the criminal legal aid tender prior to the Secretary of State announcing its reversal on 28 January 2016. There were no individual payments greater than £300,000.

Signed for and on behalf of the Legal Aid Agency

Shaun McNally CBE

Chief Executive and Accounting Officer of the Legal Aid Agency
(with effect from 1 April 2016)
30 June 2016

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 2016 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 and Staff Report and the Parliamentary Accountability Disclosures that is described in those reports and disclosures as having been audited.

Respective responsibilities of the Accounting Officer and Auditor

As explained more fully in the Statement of the Accounting Officer's Responsibilities, the 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 2016 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 parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- Adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures 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

6 July 2016

Financial Statements of the Legal Aid Agency for the year ended 31 March 2016

Legal Aid Agency
Statement of Comprehensive Net Expenditure
For the year ended 31 March 2016

		2015-16	Restated 2014-15
	Note	£000	£000
Income under the legal aid schemes	6	(190,535)	(191,402)
Statutory charge interest		(9,042)	(6,745)
Rental income		(787)	(787)
Total operating income		(200,364)	(198,934)
Staff costs	3	69,204	56,984
Expenditure under the legal aid schemes	4	1,720,411	1,749,153
Depreciation and amortisation	8, 9	10,227	14,306
Other operating expenditure	5	39,337	44,491
Total operating costs		1,839,179	1,864,934
Net operating costs for the year	2	1,638,815	1,666,000
Other comprehensive expenditure			
Net (gain)/loss on revaluation of intangibles		(686)	(534)
Net (gain)/loss on revaluation of property, plant and equipment		(97)	(115)
Total comprehensive expenditure		1,638,032	1,665,351

All income and expenditure are derived from continuing operations.
The notes on pages 57 to 83 form part of these Financial Statements.

Legal Aid Agency
Statement of Financial Position
At 31 March 2016

		31 March 2016	Restated 31 March 2015	Restated 1 April 2014
	Note	£000	£000	£000
Non-current assets				
Intangible assets	8	51,992	49,221	47,488
Property, plant and equipment	9	6,282	8,413	10,865
Total non-current assets		58,274	57,634	58,353
Current assets				
Trade and other receivables	11	133,778	111,482	105,549
Cash and cash equivalents	12	16,192	5,752	4,623
Total current assets		149,970	117,234	110,172
Total assets		208,244	174,868	168,525
Current liabilities				
Trade and other payables	13	(241,306)	(267,440)	(296,439)
Provisions for liabilities and charges	15	(592,333)	(594,429)	(668,113)
Total current liabilities		(833,639)	(861,869)	(964,552)
Total assets less current liabilities		(625,395)	(687,001)	(796,027)
Non-current liabilities				
Trade and other payables	13	(558)	(650)	(742)
Provisions for liabilities and charges	15	(1,828)	(2,092)	(2,277)
Total non-current liabilities		(2,386)	(2,742)	(3,019)
Assets less liabilities		(627,781)	(689,743)	(799,046)
Taxpayers' equity				
Revaluation reserve		1,391	1,292	1,346
General reserve		(629,172)	(691,035)	(800,392)
		(627,781)	(689,743)	(799,046)

The notes on pages 57 to 83 form part of these Financial Statements.

Signed for and on behalf of the Legal Aid Agency

Shaun McNally CBE

Chief Executive and Accounting Officer of the Legal Aid Agency
(with effect from 1 April 2016)
30 June 2016

Legal Aid Agency
Statement of Cash Flows
For the year ended 31 March 2016

		2015-16	Restated 2014-15
	Note	£000	£000
Cash flows from operating activities			
Net deficit after interest		(1,638,815)	(1,666,000)
Adjustments for notional and non-cash transactions		20,927	24,979
Intra-departmental balances settled via General Reserve		24,154	18,058
Loss/(gain) on impairment and revaluation of assets	5	(63)	16
(Increase)/decrease in trade and other receivables		(22,296)	(5,933)
(Decrease)/increase in trade and other payables		(26,226)	(29,091)
Less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		(105)	950
Movement in provisions		(2,360)	(73,869)
Net cash outflow from operating activities		(1,644,784)	(1,730,890)
Cash flows from investing activities			
Purchase of intangible assets	7	(7,631)	(12,310)
Purchase of property, plant and equipment	7	(724)	(132)
Net cash outflow from investing activities		(8,355)	(12,442)
Cash flows from financing activities			
Supply funding from the Ministry of Justice: revenue		1,655,027	1,732,870
Supply funding from the Ministry of Justice: capital		8,552	11,591
Net cash inflow from financing activities		1,663,579	1,744,461
Net increase/(decrease) in cash and cash equivalents in the year		10,440	1,129
Cash and cash equivalents at the beginning of the year		5,752	4,623
Cash and cash equivalents at the end of the year	12	16,192	5,752

The notes on pages 57 to 83 form part of these Financial Statements.

Legal Aid Agency
Statement of Changes in Taxpayers' Equity
For the year ended 31 March 2016

		Revaluation reserve	General reserve	Total
	Note	£000	£000	£000
Balance at 31 March 2014		1,346	(732,526)	(731,180)
Restatement of Civil Representation work in progress			(67,866)	(67,866)
Restated balance at 1 April 2014		1,346	(800,392)	(799,046)
Changes in taxpayers' equity for 2014-15				
Supply funding from the Ministry of Justice: revenue		-	1,732,870	1,732,870
Supply funding from the Ministry of Justice: capital		-	11,591	11,591
Net operating cost for the year		-	(1,666,000)	(1,666,000)
Other comprehensive expenditure				
Net (loss)/gain on revaluation		649	-	649
Non-cash adjustment				
Intra-departmental adjustment		-	19,423	19,423
Notional recharge from the Ministry of Justice	5	-	10,530	10,530
Notional external audit fee	5	-	240	240
Movement in reserves				
Transfers from revaluation reserve		(703)	703	-
Restated balance at 31 March 2015		1,292	(691,035)	(689,743)
Restated balance at 1 April 2015		1,292	(691,035)	(689,743)
Changes in taxpayers' equity for 2015-16				
Supply funding from the Ministry of Justice: revenue		-	1,655,027	1,655,027
Supply funding from the Ministry of Justice: capital		-	8,552	8,552
Net operating cost for the year		-	(1,638,815)	(1,638,815)
Other comprehensive expenditure				
Net gain/(loss) on revaluation		783	-	783
Non-cash adjustment				
Intra-departmental adjustment		-	25,623	25,623
Notional recharge from the Ministry of Justice	5	-	10,572	10,572
Notional external audit fee	5	-	220	220
Movement in reserves				
Transfers from revaluation reserve		(684)	684	-
Balance at 31 March 2016		1,391	(629,172)	(627,781)

The notes on pages 57 to 83 form part of these Financial Statements.

Legal Aid Agency

Notes to the Financial Statements

For the year ended 31 March 2016

Note 1 - Statement of accounting policies

The financial statements have been prepared in accordance with the Government Financial Reporting Manual (FReM) 2015-16, under the direction issued by HM Treasury under the Government Resources and Accounts Act 2000. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Legal Aid Agency (LAA) for the purpose of giving a true and fair view has been selected. The particular policies adopted by the LAA are described below. They have been applied consistently in dealing with items that are considered material to the financial statements.

a) Basis of preparation

The financial statements are presented in Sterling rounded to the nearest thousand (£000) unless otherwise stated. The financial statements have been prepared under the historical cost convention, modified to account for the revaluation of certain financial assets and liabilities, where material, and of non-current assets at their value to the LAA 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 11) and provisions for liabilities and charges (note 15).

Going concern

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

b) Change in accounting policy and disclosures

Change in accounting policies

There have been no changes in accounting policies for the period ending 31 March 2016.

New and amended standards adopted

There are no new or amended standards that are effective for the financial year beginning on or after 1 April 2015 that have a material impact on the LAA's Accounts.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2015 and not early adopted

IFRS 9 'Financial Instruments' is not yet effective in public sector reporting and is not expected to have a material impact on the LAA's future accounts.

Changes in presentation and reclassifications

In addition to note 3, details of staff costs and average number of persons employed are disclosed in the Remuneration and staff report.

c) Income

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

Costs recoverable

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

Recoveries from damages and statutory charge

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

Crown Court Means Testing

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

d) Expenditure

Expenditure comprises sums payable, including the estimated value of work completed by legal aid service providers not yet billed, for services provided to funded clients, refunds of contributions to funded clients, costs awarded

to other parties and other costs associated with the provision of legal advice and assistance. Other costs include the cost of staff (including an allocation of pension costs) and the administrative costs of running the LAA.

e) Cash and cash equivalents

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

f) Provisions

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

Amounts outstanding on funded cases

The LAA recognises its liability to pay for work completed at 31 March 2016 but not yet billed. Separate models are run for each legal aid scheme, including Civil Representation, Civil 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 10 to these financial statements.

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

Under the terms of the Prosecution of Offences Act 1985, acquitted defendants who have applied for legal aid and been found ineligible may, in limited circumstances obtain an order from the Crown Court to recover their costs. The LAA estimates the value of unbilled costs to arrive at the amount disclosed in the 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 1.6% (2015: negative 1.5%) for short-term (up to 5 years), negative 1.0% (2015: negative 1.1%) for medium-term (5 to 10 years) and negative 0.8% (2015: 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.

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.

h) Financial instruments

Financial assets

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

Initial recognition and measurement

Receivables are initially recognised at their gross amount adjusted to take account of the time value of money over the period in which they are expected to be collected, based on the HM Treasury discount rate of 3.7% nominal, 0.7% real (2015: 2.2%). This is described as a fair value adjustment.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate method, less any impairment and further fair value adjustment. Any interest receivable or loss arising on impairment is recognised in the Statement of Comprehensive Net Expenditure. All receivables are disclosed

as due within one year although, in the case of statutory charge debts 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 14 to these financial statements.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, 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 11 to these financial statements.

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

Where there is objective evidence that an impairment loss exists on loans and receivables, impairment provisions are made to reduce the carrying value of financial assets to the fair value of the estimated future cash flows discounted at HM Treasury's interest rate, currently 3.7% nominal, 0.7% real (2015: 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 judgement and costs have been determined, if the applicant is found guilty, the value of the funds up to the cost limit are due to the LAA. If the applicant is found not guilty, contributions paid to the LAA are refunded including interest calculated at 2.0% per annum from the date of payment.

The movement in third party funds is reported in note 21 to these financial statements.

l) Employee benefits

International Accounting Standard (IAS) 19 'Employee Benefit' 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.

Intra-departmental adjustment

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

n) Contingent liabilities and assets

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

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

o) Events after the reporting period

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

p) Assets under construction

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

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

q) Intangible assets

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

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

The LAA applies a capitalisation threshold for intangible assets of £10,000 (2015: £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 (2015: £10,000) are treated as capital assets. Where an item costs less than the capitalisation threshold but forms part of an asset or grouped asset, whose total value is greater than the capitalisation level, the item is treated as a capital asset.

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

s) Depreciation and amortisation

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

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

t) Impairment of non-financial assets

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

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

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

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

u) Revaluation

When an asset's carrying amount increases as a result of a revaluation, the increase is recognised in the Statement of Comprehensive Net Expenditure to the extent that it reverses a revaluation decrease of the same asset previously recognised here. Any remaining increase is credited directly to the revaluation reserve in

the Statement of Changes in Taxpayers' Equity. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. The net amount is restated to the revalued amount of the asset.

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

v) Notional recharges

Notional recharges from the Ministry of Justice

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

Notional audit fee

The costs of the audit performed by the National Audit Office on behalf of the Comptroller and Auditor General recognised as a non-cash charge in 2015-16.

w) Statutory charge interest receivable

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

x) Pensions***Principal Civil Service Pension Scheme (PCSPS)***

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

y) Segmental reporting

We determine suitable operating segments in accordance with IFRS 8 'Operating Segments' based on what information is presented for decision-making purposes to the LAA Board.

Notes to the Financial Statements continued

Note 2 - Segmental analysis

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

The operating segment's net cost of operations is measured on the same basis as the corresponding amount reported in the financial statements.

The following table presents the net operating costs of operations by reportable operating segments for the year ended 31 March 2016:

	2015-16	Restated 2014-15
	£000	£000
Fund		
Legal Help*	95,143	112,165
Civil Representation	518,580	480,721
Crime Lower**	282,151	332,578
Crime Higher	582,383	586,457
Central Funds	48,059	44,238
Administration	112,499	109,841
Net operating costs for the year	1,638,815	1,666,000

* Legal Help expenditure includes £319k of staff costs (2015: £357k).
** Crime lower expenditure includes £5,163k of staff costs (2015: £4,796k).

Note 3 - Staff costs

	2015-16	2015-16	2015-16	2014-15	2014-15	2014-15
	Permanently employed staff	Other	Total	Permanently employed staff	Other	Total
	£000	£000	£000	£000	£000	£000
Salaries and wages	42,964	7,579	50,543	40,193	4,946	45,139
Social security costs	3,233	193	3,426	3,100	230	3,330
Other pension costs	8,030	445	8,475	7,092	441	7,533
	54,227	8,217	62,444	50,385	5,617	56,002
Less recoveries in respect of outward secondments	(333)	-	(333)	(214)	-	(214)
Redundancy*	7,063	-	7,063	1,169	-	1,169
	60,957	8,217	69,174	51,340	5,617	56,957
Non-Executive Board Members costs:						
Fees to Non-Executive Board Members	29	-	29	26	-	26
Social security costs	1	-	1	1	-	1
	30	-	30	27	-	27
Total	60,987	8,217	69,204	51,367	5,617	56,984

* Redundancy costs disclosed in the above table relates to 206 (2015: 34) full time equivalent staff, and an early departure provision.

Note 4 - Expenditure under the legal aid schemes

	2015-16	Restated 2014-15
	£000	£000
Civil Representation		
Solicitors' charges, counsel fees and disbursements	682,622	726,232
Refund of contributions	422	1,355
Debt Impairment and write offs	(11,514)	14,004
Discount of debt*	9,372	-
Costs of successful unassisted parties	1,077	343
Provision for work in progress movement (note 15)	6,027	(89,220)
	688,006	652,714
Civil Legal Help		
Solicitors' charges, counsel fees and disbursements	94,482	100,224
Grants and Direct Services	5,489	7,924
Debt impairment and write offs	1,258	(87)
Discount of debt*	272	-
Provision for work in progress movement (note 15)	(6,677)	3,660
	94,824	111,721
Crime Lower		
Solicitors' charges, counsel fees and disbursements	269,835	326,521
Grants and Direct Services and Public Defender Service	4,003	2,548
Debt impairment and write offs	642	(60)
Discount of debt*	137	-
Provision for work in progress movement (note 15)	2,371	(1,287)
	276,988	327,722
Crime Higher		
Solicitors' charges, counsel fees and disbursements	612,164	572,755
Debt impairment and write offs	(1,030)	8,437
Discount of debt*	5,506	-
Provision for work in progress movement (note 15)	(4,106)	31,566
	612,534	612,758
Central Funds		
Defence cost orders awarded in Crown and magistrates' courts	38,150	49,816
Interpreters	10,938	12,998
Provision for amounts outstanding in relation to privately funded cases (note 15)	(1,029)	(18,576)
	48,059	44,238
Total	1,720,411	1,749,153

* Discount on debt has previously been shown net of income. This year a significant change in the discount rate, 3.7% nominal, 0.7% real (2015: 2.2%) has caused a material movement on the discount on debt, this movement has been reflected as an expense in the expenditure under the legal aid schemes note.

Note 5 - Other operating expenditure

	2015-16	2014-15
	£000	£000
Accommodation and related costs	3,107	3,478
Office, IT and service running costs	13,489	13,955
Staff and committee member related costs	1,361	2,137
Operating leases	2,836	2,825
Legal and professional costs	4,059	3,773
Service level agreements with HMCTS	820	5,993
Other administration costs	1,953	1,345
	27,625	33,506
Non-cash costs		
Revaluation and impairment of intangible assets	(33)	16
Revaluation and impairment of property, plant and equipment	(30)	-
Movement in provision for legal costs and dilapidation	1,101	292
Notional recharge from the Ministry of Justice	10,572	10,530
Notional audit fee	220	240
Operating lease amortisation	(92)	(97)
Borrowing costs of provisions	(26)	4
	11,712	10,985
Total	39,337	44,491

Note 6 - Income under the legal aid schemes

	2015-16	2014-15
	£000	£000
Civil Representation		
Contributions by funded clients	12,591	16,556
Costs recoverable	130,783	125,351
Recoveries from damages and statutory charge	17,010	23,177
	160,384	165,084
Criminal cases		
Crown Court recoveries	28,935	25,915
Recovery of defence costs	1,216	403
	30,151	26,318
Total	190,535	191,402

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

	2015-16	2014-15
	£000	£000
Additions of intangible assets (note 8)	7,828	11,528
(Increase)/decrease in capital accrual	(197)	782
Total intangible asset purchases per Statement of Cash Flows	7,631	12,310
Additions of property, plant and equipment (note 9)	724	63
(Increase)/decrease in capital accrual	-	69
Total property, plant and equipment purchases per Statement of Cash Flows	724	132
Total purchases per Statement of Cash Flows	8,355	12,442

Notes to the Financial Statements continued

Note 8 - Intangible assets

	Assets under construction	Computer software	Total
	£000	£000	£000
Cost at 1 April 2015	7,303	77,290	84,593
Reclassifications	(5,105)	5,156	51
Additions	7,568	260	7,828
Transfers from the MoJ	1,469	-	1,469
Revaluations	-	1,222	1,222
Cost at 31 March 2016	11,235	83,928	95,163
Amortisation at 1 April 2015	-	35,372	35,372
Charged in year	-	7,296	7,296
Revaluations	-	503	503
Amortisation at 31 March 2016	-	43,171	43,171
Net book value at 31 March 2016	11,235	40,757	51,992

The total additions include £997k (2015: £801k) of capital accruals at 31 March 2016.

The revaluation reserve balance of £1,391k in Statement of Taxpayer's Equity includes £1,116k (2015: £1,114k) relating to intangible assets at 31 March 2016.

All intangible assets are owned by the LAA.

The useful economic life of the Client and Cost Management System has been extended from 5 to 15 years to reflect management's intended purpose for the asset, with no future plans to replace this system. The impact of this change is a decrease in the amortisation charge of £4.5m per year.

	Assets under construction	Computer software	Total
	£000	£000	£000
Cost at 1 April 2014	33,406	37,919	71,325
Reclassifications	(38,324)	38,324	-
Additions	11,210	318	11,528
Disposals	-	(37)	(37)
Impairments	-	(16)	(16)
Transfers from the MoJ	1,011	-	1,011
Revaluations	-	782	782
Cost at 31 March 2015	7,303	77,290	84,593
Amortisation at 1 April 2014	-	23,837	23,837
Charged in year	-	11,324	11,324
Disposals	-	(37)	(37)
Revaluations	-	248	248
Amortisation at 31 March 2015	-	35,372	35,372
Net book value at 31 March 2015	7,303	41,918	49,221

Note 9 - Property, plant and equipment

	Assets under construction	Fixtures & fittings	Furniture & equipment	Information technology	Total
	£000	£000	£000	£000	£000
Cost at 1 April 2015	285	3,569	-	16,821	20,675
Reclassifications	(230)	-	208	185	163
Additions	693	-	-	31	724
Disposals	-	(3,569)	-	-	(3,569)
Revaluations	-	-	-	261	261
Cost at 31 March 2016	748	-	208	17,298	18,254
Depreciation at 1 April 2015	-	3,543	-	8,719	12,262
Charged in year	-	26	-	2,905	2,931
Disposals	-	(3,569)	-	-	(3,569)
Reclassifications	-	-	208	6	214
Revaluations	-	-	-	134	134
Depreciation at 31 March 2016	-	-	208	11,764	11,972
Net book value at 31 March 2016	748	-	-	5,534	6,282

The revaluation reserve balance of £1,391k in Statement of Taxpayer's Equity includes £275k (2015: £178k) relating to property, plant and equipment at 31 March 2016. All property, plant and equipment are owned by the LAA.

	Assets under construction	Fixtures & fittings	Furniture & equipment	Information technology	Total
	£000	£000	£000	£000	£000
Cost at 1 April 2014	3,428	3,571	299	13,140	20,438
Reclassifications	(3,427)	-	-	3,427	-
Additions	63	-	-	-	63
Disposals	-	(2)	(299)	(51)	(352)
Transfers from the MoJ	221	-	-	131	352
Revaluations	-	-	-	174	174
Cost at 31 March 2015	285	3,569	-	16,821	20,675
Depreciation at 1 April 2014	-	3,396	299	5,878	9,573
Charged in year	-	149	-	2,833	2,982
Disposals	-	(2)	(299)	(51)	(352)
Revaluations	-	-	-	59	59
Depreciation at 31 March 2015	-	3,543	-	8,719	12,262
Net book value at 31 March 2015	285	26	-	8,102	8,413

Note 10 - Financial risk identification and management

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

Interest rate risk

The LAA is not exposed to significant interest rate risk.

At 31 March 2016, £79.4m (2015: £61.9m) of statutory charge debt was due, the principal of which carried a fixed rate of interest.

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

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

Credit risk

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

The immediate credit exposure of financial instruments is represented by those instruments that have a net positive fair value by counterparty at 31 March 2016. This considers the maximum exposure to credit risk to be:

	2015-16	2014-15
	£000	£000
Credit risk		
Cash and cash equivalents	16,192	5,752
Trade and other receivables	133,778	111,482
Third party assets	18,605	21,096
	168,575	138,330

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 2016 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.

Trade receivables and other current assets

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

The LAA recognises this risk and mitigates it in the case of statutory charge debts, where 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 £202.9m (2015: £223.3m).

The majority of the LAA's trade and other receivables are the result of a statutory charge, i.e. £79.4m (2015: £61.9m) out of a total receivables balance after impairment of £133.8m (2015: £111.5m).

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 economy, housing market, interest rates 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, whether income is received against debt evenly throughout the year, and the discount rate of 3.7% nominal, 0.7% real (2015: 2.2%).

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

- maximum life of debt +/- 1 year;
- income received evenly throughout the year rather than at the end of the year;
- predicted income receipts used to calculate the impairment provision cashflows +/- 10%; and
- discount rate +/-1%. This rate is set by HM Treasury.

Assumptions tested

	Assumption	Increase/(decrease) in net financial asset	
		2015-16 £m	2014-15 £m
Maximum life of debt	+1 year	0.1	0.4
Maximum life of debt	-1 year	(1.3)	(0.5)
Income received	Evenly through the year	1.1	0.9
Predicted income receipts	+10%	10.4	8.4
Predicted income receipts	-10%	(11.2)	(8.4)
Discount rate	+1%	(5.2)	
Discount rate	-1%	5.3	

Using these reasonably possible alternative assumptions, the fair value of the financial assets at 31 March 2016 could be higher by £16.9m (2015: £9.7m) or lower by £17.7m (2015: £8.9m).

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

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 from historical price, quantity profiles, forecast spend, and underlying operational 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 have been quantified below:

- price profiles +5.8% to -8.4%
- quantity profiles +0.5% to -13.2%
- forecast spend +4.4% to -4.0%

Assumptions tested

	Increase in net financial liability		(Decrease) in net financial liability	
	Assumption	£m	Assumption	£m
Price profiles	+ 5.8%	3.3	- 8.4%	(4.8)
Quantity profiles	+ 0.5%	0.3	- 13.2%	(7.5)
Forecast spend	+ 4.4%	13.5	- 4.0%	(12.3)

Using these reasonable alternative assumptions, the fair value of the financial liabilities at 31 March 2016 could be higher by up to £17.1m (2015: £28.3m) or lower by up to £24.6m (2015: £29.9m).

The above assumptions exclude the model variables used in the calculation of the Civil Representation work in progress provision of £311.0m (restated 2015: £305.0m).

Civil Representation work in progress provision

The Civil Representation work in progress provision is calculated on a case by case basis using past patterns of activity, with multiple potential duration and cost outcomes. The calculations are segmented between the different expenditure streams and between different milestones in a case's lifecycle. The model estimates activity to the next financial event in each expenditure stream, reflecting the 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 using data to March 2015;
- billing duration +17% to -12%; and
- dormancy cutoff assumption +25%.

Civil Representation assumptions tested

	Increase		Decrease	
	Assumption	£m	Assumption	£m
Transition cost and duration profile	March 2015 profiles	10.1	March 2015 profiles	(10.1)
Billing duration	17%	7.0	-12%	(5.4)
Dormancy assumption	25%	19.0	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 work in progress provision is such, that relatively small percentage movements in the above inputs could lead to the estimate crystallising at a materially different amount. 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 2016 could be higher by up to £36.1m (2015: £46.9m) or lower by up to £15.5m (2015: £21.7m).

Cash

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

Note 11 - Trade and other receivables

	2015-16	2014-15
	£000	£000
Amounts falling due within one year:		
Gross debt	336,657	334,746
Impairment provision	(202,879)	(223,264)
Total	133,778	111,482
By component:		
Contributions due from funded clients	6,634	6,296
Costs to be recovered	800	1,032
Damages	131	1,105
Amounts due from service providers	20,161	25,865
Recovery of defence costs	22,997	12,662
Prepayments and accrued income	683	1,020
Intra-departmental debtors	2,169	772
Other receivables	761	808
Statutory charge and interest*	79,442	61,922
	133,778	111,482

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

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

The net amount of statutory charge debt is:

	2015-16	2014-15
	£000	£000
Statutory charge	55,381	41,668
Interest accrued to date	24,061	20,254
	79,442	61,922

Notes to the Financial Statements continued

Amounts falling due within one year by organisational type:

	2015-16	2014-15
	£000	£000
Central government bodies	2,795	1,671
Bodies external to government	130,983	109,811
	133,778	111,482

Note 12 - Cash and cash equivalents

	2015-16	2014-15
	£000	£000
Balance at 1 April	5,752	4,623
Net change in cash and cash equivalent balances	10,440	1,129
	16,192	5,752

The balances at 31 March 2016 were held at:

	2015-16	2014-15
	£000	£000
Government Banking Service	8,718	2,805
Commercial banks	7,474	2,947
Total cash and cash equivalents	16,192	5,752

Note 13 - Trade and other payables

Amounts falling due within one year:

	2015-16	Restated 2014-15
	£000	£000
Amounts due to solicitors, counsel and advice agencies	104,215	129,982
Contribution refunds due to funded clients	2,671	1,769
Accruals and deferred income	112,408	110,683
Other taxation and social security costs	1,054	1,118
Intra-departmental creditors	16,607	20,685
Other payables	4,351	3,203
	241,306	267,440

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

Amounts falling due within one year by organisational type:

	2015-16	Restated 2014-15
	£000	£000
Local authorities	4	-
Other central government bodies	19,806	25,101
Bodies external to government	221,496	242,339
	241,306	267,440

Amounts falling due after more than one year:

	2015-16	2014-15
	£000	£000
Accruals and deferred income	558	650
	558	650

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

	2015-16	2014-15
	£000	£000
Central government bodies	499	552
Bodies external to government	59	98
	558	650

Note 14 - Fair values

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

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

Carrying amounts and fair values

	2015-16	Restated 2014-15
	£000	£000
Trade and other receivables	133,778	111,482
Cash and cash equivalents	16,192	5,752
Trade payables and other liabilities	(241,864)	(268,090)
At 31 March	(91,894)	(150,856)

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

To take account of this time value of money effect an estimation technique has been used, discounting all receivable balances over periods commensurate with historical cash flow patterns for each class of receivable at a rate of 3.7% real, 0.7% nominal per annum (2015: 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 financial assets and liabilities measured at fair value fall within level 3.

Note 15 - Provisions for liabilities and charges

	Provision for amounts outstanding on funded cases	Provision for amounts outstanding in relation to privately funded cases (Central Funds)	Provision for legal costs	Provision for dilapidation	Provision for early departure	Total
	£000	£000	£000	£000	£000	£000
Restated at 1 April 2015	587,593	6,223	265	2,440	-	596,521
Net movement and revaluation to provision	(2,385)	(1,029)	1,259	70	316	(1,769)
Amounts used in the period	-	-	(251)	(86)	-	(337)
Unused amounts reversed in the period	-	-	(137)	(91)	-	(228)
Finance charges	-	-	-	(26)	-	(26)
At 31 March 2016	585,208	5,194	1,136	2,307	316	594,161
Restated at 1 April 2014	642,874	24,799	106	2,611	-	670,390
Net movement and revaluation to provision	(55,281)	(18,576)	580	-	-	(73,277)
Amounts used in the period	-	-	(168)	(140)	-	(308)
Unused amounts reversed in the period	-	-	(253)	(35)	-	(288)
Finance charges	-	-	-	4	-	4
Restated at 31 March 2015	587,593	6,223	265	2,440	-	596,521

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 dilapidation	Provision for early departure	Total
	£000	£000	£000	£000	£000	£000
Not later than one year	585,208	5,194	1,136	479	316	592,333
Later than one year and not later than five years	-	-	-	1,552	-	1,552
Later than five years	-	-	-	276	-	276
Balance at 31 March 2016	585,208	5,194	1,136	2,307	316	594,161
Not later than one year	587,593	6,223	265	348	-	594,429
Later than one year and not later than five years	-	-	-	1,763	-	1,763
Later than five years	-	-	-	329	-	329
Restated balance at 31 March 2015	587,593	6,223	265	2,440	-	596,521

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 10 of these financial statements.

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

Provision is made for legal costs associated with ongoing litigation.

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

It has then been discounted at the HM Treasury discount rate of -1.6% (2015: -1.5%) for short term (up to 5 years), -1.0% (2015: -1.1%) for medium term (5 to 10 years) and -0.8% (2015: 2.2%) for long term leases (over 10 years).

The costs of the dilapidations provisions are expected to be incurred between 2016 and 2026 as each lease expires.

Note 16 - Prior period adjustment

During the year the LAA undertook a series of activities designed to improve the accuracy and reporting of the Civil Representation work in progress provision. This uncovered that barrister costs were being treated incorrectly in the underlying input data of the work in progress model.

In the Civil Representation work in progress model expenditure is grouped together as either solicitor costs, counsel costs or disbursements as it is assumed they have similar billing patterns. The Family Advocacy Scheme (FAS) was introduced in 2011 and harmonised the rates paid to barristers and solicitors for advocacy work in Family cases. The barrister expenditure under the FAS was recognised in the solicitor costs expenditure stream in the work in progress model. It is considered more appropriate to include these costs with all other barrister expenditure as it is thought barrister working and billing patterns would be the most important characteristics when determining the overall work in progress profiles.

The impact of the prior period adjustment on each line in the primary statements is set out below:

Statement of Comprehensive Net Expenditure

	2014-15
	£000
Operating cost	
Expenditure under the legal aid schemes as previously disclosed	1,778,644
Prior period adjustment	(29,491)
Restated expenditure under the legal aid schemes	1,749,153
Total comprehensive net expenditure	
Total comprehensive net expenditure as previously disclosed	1,694,842
Prior period adjustment	(29,491)
Restated total comprehensive net expenditure	1,665,351

Statement of Financial Position

	31 March 2015	1 April 2014
	£000	£000
Current trade and other payables as previously disclosed	(271,678)	(294,141)
Prior period adjustment	4,238	(2,298)
Restated trade and other payables	(267,440)	(296,439)
Current provision for liabilities and charges as previously disclosed	(551,816)	(602,545)
Prior period adjustment	(42,613)	(65,568)
Restated provision for liabilities and charges	(594,429)	(668,113)
Taxpayers' equity as previously disclosed	(651,368)	(731,180)
Prior period adjustment	(38,375)	(67,866)
Restated taxpayers' equity	(689,743)	(799,046)

Note 17 - Commitments under leases

Operating leases

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

Obligations under operating leases comprise:

	31 March 2016	31 March 2015
	£000	£000
Not later than one year	2,289	2,692
Later than one year and not later than five years	3,389	5,016
Later than five years	982	1,172
	6,660	8,880

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

Note 18 - Financial commitments

The LAA has financial commitments totalling £1,768k at 31 March 2016 (31 March 2015: £2,095k), all of which fall due within one year.

Note 19 - Contingent assets and liabilities

At 31 March 2016, the LAA was investigating 33 compensation claims for which there is a potential liability of £239k (2015: 27 compensation claims with a potential liability of £398k).

There were also four Employment Tribunal and one legal challenge ongoing which are at varying stages of resolution.

The LAA have four contingent assets in relation to costs orders from legal proceedings with a total value of £319.5k (2015: nil).

Note 20 - Related party transactions

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

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

During 2015-16 no Board members or other related parties have undertaken any transactions with the LAA.

Note 21 - Third party assets

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

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

	31 March 2015	Gross Inflows	Gross Outflows	31 March 2016
	£000	£000	£000	£000
Damages*	9,078	8,911	(10,579)	7,410
Crown Court Means Test**	12,018	21,679	(22,502)	11,195
Total third party assets held as cash	21,096	30,590	(33,081)	18,605

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

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

Note 22 - 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.

The result of the referendum held on 23 June was in favour of the UK leaving the European Union. This is a non-adjusting event. A reasonable estimate of the financial effect of this event cannot be made.

There are no other material subsequent events to report.

ISBN 978-1-4741-3505-4



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