



HM Courts &
Tribunals Service

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Trust Statement 2014–15



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Her Majesty's Courts & Tribunals Service is an executive agency of the Ministry of Justice.

Trust Statement presented to the House of Commons pursuant to section 7 of the Government Resources and Accounts Act 2000.

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Accounting Officer's Foreword to the Trust Statement

I'm pleased to present my first foreword for the HM Courts & Tribunals Service Trust Statement. I'm delighted that the Comptroller and Auditor General has again been able to provide an unqualified audit opinion on this statement, which recognises the improvements we've made to address the issues that were identified in previous years.

Although I have only been here a matter of months I have been impressed by the positivity and culture of the organisation that I am now leading - and also by the way we work with other Departments and Agencies to achieve our shared goals. The Trust Statement is an excellent example of this collaborative working, and reflects the collective efforts of a number of Agencies (such as the CPS and Serious Fraud Office) that work together to collect and enforce payments relating to fines, confiscation orders and other financial penalties imposed by the courts and police forces.

The past year has seen a number of areas of improved performance. During 2014-15 we improved on our strong performance in collections and collected an additional £45m, a 9% increase on 2013/14. This improvement in collections was underpinned by a data sharing initiative introduced in 2013/14 with the Department of Work and Pensions (DWP) and HM Revenue and Customs (HMRC).

A total of £54.8m was collected for victim services, an increase of £16.3m on 2013-14. This funding comes from victim surcharges applied at sentencing in Courts (£24.5m) and a HM Treasury approved retention of a portion of fixed penalty notices (£30.3m). This means that more funding is directed to meet the needs of local communities, with the majority of the funding now being managed by the Police and Crime Commissioners, who tailor services to meet the needs of their communities. In addition, legislation introduced in 2014 has resulted in the victim surcharge being payable on all custodial sentences with defendants no longer being able to serve additional time in prison in lieu of payment.

Despite these improvements, there is still much left for us to do to improve performance even further. My focus since joining, and for the years ahead, is to reform our courts and tribunals so that they can deliver a better service to all our users. Part of this will be working to ensure that our collection and enforcement services are as efficient and well-run as possible, provide the best value for money for the taxpayer and ensure that justice is delivered.

The path ahead will be challenging – we will need to operate better services for lower costs, and develop completely new approaches which will challenge today’s operating models completely. However, with the foundations laid since HM Courts & Tribunals Service was created in 2011, and in particular, over the past year, I’m increasingly confident that we can meet that challenge.

A handwritten signature in black ink, consisting of a series of connected, slightly wavy lines that form a stylized representation of the name Natalie Ceeney.

Natalie Ceeney CBE
Chief Executive and Accounting Officer
13 July 2015

Introduction to the Trust Statement

Introduction

A Trust Statement provides an account of the collection of revenues which by statute or convention are due to the Consolidated Fund¹ where the entity undertaking the collection acts as agent rather than principal. The legislative requirement for the HM Courts & Tribunals Service Trust Statement is set out in section 7 of the Government Resources and Accounts Act 2000.

HM Courts & Tribunals Service acts as an agent responsible for collecting financial penalties imposed by the judiciary and the police. These impositions comprise court fines, prosecutors' costs, compensation to victims, fixed penalty notices, confiscation orders and victim surcharge.

The Trust Statement records income and expenditure relating to these impositions, the third party bodies to which the funds are disbursed and the year-end balance owed to the Consolidated Fund.

The Trust Statement accounts do not include the costs of running HM Courts & Tribunals Service. These are reported separately in the HM Courts & Tribunals Service Annual Report & Accounts 2014–15 (HC 9) which also sets out the general direction and priorities for the agency, details of its management and the Chief Executive's report.

Scope

HM Courts & Tribunals Service collects the following types of financial imposition as described below:

Fines, prosecutors' costs and compensation orders – These items are imposed by both magistrates' and Crown Courts but are enforced by magistrates' courts. Fines monies collected by HM Courts & Tribunals Service are surrendered to the Consolidated Fund after any retentions permitted by HM Treasury. Prosecutors' costs and compensation order monies are passed by HM Courts & Tribunals Service to either crown or private prosecutors and the victims of the crimes committed respectively.

Confiscation Orders – Confiscation orders are imposed by the Crown Court under the Proceeds of Crime Act 2002. 45% of confiscation orders by value are enforced by agencies other than HM Courts & Tribunals Service. These agencies include the Crown Prosecution Service (CPS), Serious Fraud Office

¹ The Consolidated Fund is the central account administered by HM Treasury which receives government revenues and makes issues to fund expenditure by Government Departments.

(SFO), Department for Work and Pensions and local authorities. The composition of confiscation orders is characterised by a small volume of high value orders and a larger volume of low value orders. Confiscation order receipts are surrendered to the Home Office, with a portion subsequently returned to the Ministry of Justice under the asset recovery incentive scheme.

Fixed penalty notices – Penalty notices are imposed by the police and include both fixed penalty notices (FPNs) for traffic rule violations and anti-social behaviour orders (ASBOs). Notices that remain unpaid after 28 days are converted into fines and enforced as described above. Receipts from penalty notices and the associated fines are surrendered to the Consolidated Fund after deduction of retentions permitted by HM Treasury.

Victim surcharge – An additional surcharge is added to fines that are imposed and are enforced as described above. The receipts from the collection of the victim surcharge by HM Courts & Tribunals Service are passed to the justice reform directorate of the MoJ to fund victims' services.

Expenditure and disbursements - Receipts from confiscation orders, prosecution costs and compensation orders are remitted to appropriate third parties, including government departments and the victims of crime. These remittances are reflected through the disbursements disclosed in the Statement of Revenue and Expenditure.

The only expenditure in the HM Courts & Tribunals Service Trust Statement relates to the administrative write-off of fines and the impairment of outstanding fines and confiscation orders.

With the agreement of HM Treasury, the MoJ is permitted to retain an element of fines collected as income through the following schemes:

- The warrant enforcement netting off scheme permits MoJ to retain revenue equal to the pre - Courts Act 2003 cost of enforcing and collecting fines whilst the Courts Act national roll-out netting off scheme permits the retention of an amount equal to the employment costs of the court officers appointed in compliance with the Courts Act 2003. The amounts retained in 2014-15 under the warrant enforcement and Courts Act national roll-out schemes were £66.6m and £6.9m respectively.
- The fine incentive scheme permits MoJ to retain an amount of fines collected in excess of an agreed payment rate, up to a maximum of £20m.
- Under a memorandum of understanding with the MoJ and with the agreement of HM Treasury, £30 million per annum of additional revenue raised from fixed penalties issued for motoring offences is retained by the MoJ's justice reform unit in order to fund services provided to the victims of crime.

- As part of the 2013 Spending Round settlement HM Treasury has permitted the MoJ to retain additional collections from fines and fixed penalty impositions. The total amount retained is disclosed under disbursements in the Statement of Revenue and Expenditure as Revenue retained by the Ministry of Justice.
 - The additional amount permitted to be retained in 2014-15 is capped at £145m.
 - The amount permitted to be retained in 2015 -16 is capped at £340m for all the retentions.

The Trust Statement reflects the complex interdependencies between HM Courts & Tribunals Service and a number of other departments and agencies involved in the enforcement process including the Home Office (HO), CPS and SFO.

Business overview

Financial performance

Impositions revenue

Total imposition revenue increased from £687m in 2013-14 to £770m in 2014-15, an increase of £83m. This was driven mainly by increases in court fines revenue of £23m, prosecutor costs of £13m, victim surcharges of £4m and confiscation order revenue of £47m, offset by a decrease in fixed penalty notices of £6m.

The increase in victim surcharge is attributable to the implementation of the surcharge on all adult custodial sentences with defendants no longer being able to serve additional time in prison in lieu of payment.

Disbursements and expenditure

Total disbursements have increased by £266m from £386m in 2013-14 to £652m in 2014–15.

£156m of this overall increase is accounted for by an increase in retentions by MoJ, £145m of which is attributable to HM Treasury's permission for MoJ to retain additional collections from fines and fixed penalty notices as part of the 2013 Spending Round settlement. The balance of the increase in retentions of £11m is attributable to additional FPN revenue retained by MoJ for victim services which increased from £19m in 2013-14 to £30m in 2014-15. This increase reflects the impact of the agreement applying to the full financial year in 2014-15.

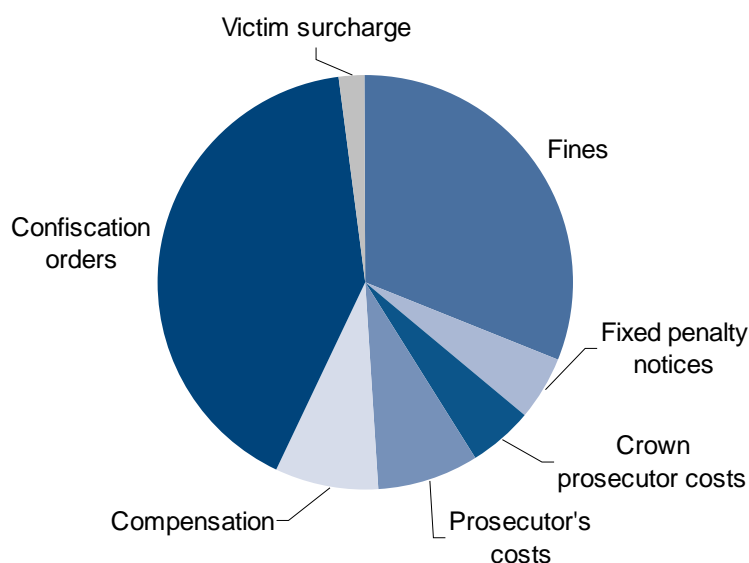
The balance of the overall increase in disbursements of £110m is mainly attributable to:

- the combined increase in impositions revenue from prosecutor costs, victim surcharges and confiscation orders of £65m mentioned above;
- a reduction in the impairment charge for the year owing to the revision in the impairment estimate which has caused an increase in the net debt recoverable. This increase in the recoverable net debt causes a corresponding increase in the value of the disbursements due to the relevant third parties.

The overall impact is that net revenue due to the Consolidated Fund during 2014-15 was £67m, a decrease of £95m compared to 2013-14.

Debt

Each class of outstanding financial imposition, or debt, has been separately assessed to calculate the appropriate level of impairment required to reflect the value of debt which is assessed as recoverable. The total value of debt estimated to be recoverable as at 31 March 2015 is £491m (2013-14: £339m). This comprises:



Confiscation Orders

The gross value of confiscation order debt as at 31 March 2015 is £1,574m and has been impaired for accounting purposes to a net present value of £203m. Underlying legislation precludes the write-off of confiscation order debt and adjustments to reflect recoverability are included in the impairment charge. In practice the recoverability of debt is influenced by a significant number of factors including outstanding confiscation orders which are assessed as unlikely to be enforced. These include, but are not limited to:

	2014–15 £000	2013–14 £000
Interest (historically challenging to enforce)	431,854	361,654
Assets assessed as hidden with no other assets against which enforcement action can be taken.	211,970	229,886
Offenders deceased, deported or cannot be located	141,415	108,925
Orders subject to appeal and cannot be enforced	30,180	63,986
Assets overseas	9,052	9,066
Sub-total	824,471	773,517
Remaining confiscation order balance	749,294	680,170
Total outstanding debt	1,573,765	1,453,687

In addition to the values shown in the above table there are confiscation orders included in the “remaining confiscation order balance” category where a proportion of the assets are considered to be hidden or overseas. As a result, the full value of confiscation orders in this category is unlikely to be fully enforceable.

Further analysis of confiscation order debt by value and lead enforcement agency is provided in note 4 to the Trust Statement.

Future developments and initiatives

Data sharing with HM Revenue & Customs

Since July 2014 HM Courts & Tribunals Service has, under the authority of the Crime and Courts Act 2013 been sending details of fine accounts to HM Revenue and Customs on a monthly basis. HMRC then provide HM Courts & Tribunal Services with any additional information they hold on offenders including employer details, self-employed status confirmation and new addresses. This has led to a significant increase in the use of the attachment of earnings sanction and means that accounts are now being closed more quickly and an element that may have ended up as ‘hard to trace’ are now being effectively enforced.

This work was initially focussed on a limited number of cases. However, due to the success of the scheme, it has recently been extended to include accounts at an early stage of the enforcement process with the aim of collecting as many accounts as possible by attachment of earnings before enforcement action is required. HM Courts & Tribunals Service now aims to use data from HM Revenue and Customs to re-start enforcement action on a number of accounts that had previously been administratively cancelled but where an attachment of earnings order is now an enforcement option.

Account analysis and review

HM Courts & Tribunals Service has introduced standard account review points (relating to the various enforcement stages) which will be used proactively throughout 2015-16. Accounts will be reviewed on a monthly basis to identify, investigate and take appropriate action on accounts that have had limited action on them for some time to ensure they are being enforced effectively. This should lead to a further reduction in the number of live accounts. To enhance this activity HM Courts & Tribunals Service is increasing its analytical capability to understand the most efficient enforcement action to take on accounts and to better understand the reasons why accounts become unenforceable.

Consolidation of accounts

HM Courts & Tribunals Service will be renewing our efforts to progress account consolidations during 2015-16 (amalgamating accounts where we identify that single offenders have multiple records). Once accounts have been consolidated, it means that one enforcement action can be taken against each offender for the total amount owed, which prevents multiple enforcement teams taking actions at the same time, ensures the offender is aware of the total amount owed and also that, where an offender owes compensation, this is paid before any other imposition types. Our consolidation activity will also extend across regional and area boundaries to make sure all accounts are brought together in the most appropriate location for the offender.

Digital Mark Up

The Digital Mark Up project is working to develop, test and deliver a digital application for legal advisers and court associates in magistrates' courts which will provide an in-court interface and back-end process to facilitate automatic update of court results to the Libra case management system. The application will help to improve efficiency and reduce the courts' reliance on paper-based systems.

Behavioural Insight

Following on from a review in 2012 with the Cabinet Office behavioural insights team, the effectiveness of different styles of reminder text messages sent to offenders was assessed and resulted in the introduction of a standard style message. We are planning to re-engage with the Team to look at the effectiveness of our written correspondence and how better to secure accurate means information from defendants.

Criminal courts charge

The government considers that convicted adult offenders should pay towards the cost of running the criminal courts. The criminal courts charge which is being implemented from April 2015 will make it possible to recover some of the costs of the criminal courts from these offenders, reducing the burden on tax payers. The collection rates and impact on other impositions and the overall outstanding balance will be monitored and appropriate action taken.

Confiscation Order Enforcement

HM Courts & Tribunals Service is committed to increasing the amount collected under confiscation orders. Particular focus has been given to building on existing joint working arrangements with partner agencies in order to secure compliance and maximise the effectiveness of enforcement sanctions.

The Home Office criminal finances board (on which HM Courts & Tribunals Service is represented) continues to set strategic direction for confiscation enforcement and manage progress against the criminal finances improvement plan. The Board also ensures that a targeted approach to enforcement is taken by prioritising cases for joint agency intervention.

HM Courts & Tribunals Service is in the process of co-locating five regional confiscation units within new police and Crown Prosecution Service Proceeds of Crime hubs. This access to financial investigators and prosecutors will improve our ability to implement effective strategies on cases and enforce orders robustly. Direct access to enhanced intelligence from the Police will increase our capacity to realise assets and to locate defendants in order to bring them before the courts for enforcement.

HM Courts & Tribunals Service is also working closely with the Home Office and MoJ to implement legislation allowing the imposition of low value confiscation orders in the magistrates' courts. Once implemented this will expand the use of Proceeds of Crime Act (POCA) powers and ensure that criminals at all levels do not benefit financially from criminal activity.

The Serious Crime Act 2015 includes new and amended provisions for POCA, including expansion of the use of S67 Payment Orders to accounts where a restraint is not in place and where time to pay has not expired. The new provisions also include the ability to impose travel restrictions on defendants with unpaid orders, and increased default sentences for orders over £1m. These amendments will support the current stock of enforcement sanctions available to enforcement teams and encourage compliance from defendants. It is anticipated that they will be implemented by the end of 2015.

The future delivery of enforcement services

To build on improvements made in recent years in the collection of criminal financial penalties, HM Courts & Tribunals Service is in the final stages of a procurement exercise to determine whether an external partner can bring the innovation and investment in technology that HM Courts & Tribunals Service needs to further improve performance and efficiency.

Should it be decided that outsourcing the compliance and enforcement services remains the preferred option, HM Courts & Tribunals Service will aim to seek final approvals from the Cabinet Office and HM Treasury with a view to awarding the contract in summer 2015. If awarded, the compliance and enforcement services would transfer to the preferred bidder who would be expected to have fully transitioned into their own estate, refined business processes and rolled out their enabling ICT within an agreed timescale after service commencement at which point the full benefits would start to be realised.

Basis for the Preparation of the Trust Statement

The HM Treasury accounts direction, issued under Section 7(2) of the Government Resources and Accounts Act 2000, requires HM Courts & Tribunals Service to prepare the Trust Statement to give a true and fair view of the state of affairs relating to the collection and allocations of fines, penalties, costs awarded by the courts, compensation and confiscation orders ordered by the courts and the revenue, expenditure and cash flows for the financial year. Regard is also given to all relevant accounting and disclosure requirements in *Managing Public Money* and other guidance issued by HM Treasury, and to the principles underlying International Financial Reporting Standards (IFRS).

HM Courts & Tribunals Service has worked closely with HM Treasury to ensure that the Trust Statement's underlying accounting policies are comprehensive, appropriate, and supported to a sufficient level of detail by reports from the business systems.

Selection of Appropriate Accounting Policies for the Trust Statement and Use of Judgements and Estimates

As Accounting Officer, it is my responsibility to apply suitable accounting policies in the preparation of the Trust Statement. The underlying approach to accruals measurement is that revenues from fines and penalties are deemed to accrue at the point at which the imposition is made. Revenues are recognised in the period in which the event that generates the revenue occurs.

I have used estimates to calculate the impairment of the outstanding debt balance. In preparing the estimates I have to take account of areas of uncertainty around those factors which determine future revenue flows. I therefore have to make judgments concerning some of these factors and I have procedures in place to do this. These calculations have been undertaken for each income stream and take into account previously set impairment thresholds and historical collections data. In addition, high value orders where HM Courts & Tribunals Service is not the lead agency have been assessed on an individual basis. However, because of the areas of uncertainty involved, there will inevitably be differences between the forecasts and future outturns. These differences arise because of the need to make judgments on areas of uncertainty and are not considered to be indicative of deficiencies in our procedures.

Auditors

The Trust Statement is audited by the Comptroller and Auditor General under Section 7(4) of the Government Resources and Accounting Act 2000. The C&AG's fee for the audit of the 2014–15 Trust Statement was £100,000 (2013–14, £110,000). This is charged on a notional basis and recognised in the resource accounts of the MoJ.

So far as I, as the Accounting Officer am aware, there is no relevant information of which the entity's auditors are unaware. I, as the Accounting Officer have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that HM Courts & Tribunals Service Trust Statement's auditors are aware of that information. No non-audit work was carried out by the auditors for HM Courts & Tribunals Service.



Natalie Ceeney CBE
Chief Executive and Accounting Officer
13 July 2015

Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed HM Courts & Tribunals Service to prepare for each financial year a Trust Statement detailing the impositions revenue collected by the department as an agent for others, 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 HM Courts & Tribunals Service Trust Statement and of its revenue and expenditure, financial position and cash flows for the financial year.

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

- observe the Accounts Direction issued by 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 statement; and
- prepare the statement on a going concern basis.

HM Treasury has appointed the Permanent Secretary of MoJ as Principal Accounting Officer of the Department. Natalie Ceeney as Chief Executive of HM Courts & Tribunals Service holds the role of Accounting Officer for the purposes of the Trust Statement. The Accounting Officer authorised the Trust Statement for issue on the date of certification by the Comptroller and Auditor General, which is reflected in the audit certificate.

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 HM Courts & Tribunals Service's assets, are set out in *Managing Public Money* published by HM Treasury.



Natalie Ceeney CBE
Chief Executive and Accounting Officer

13 July 2015

Governance Statement 2014–15

1. Introduction

This governance statement is provided in my role as Accounting Officer for HM Courts & Tribunals Service, a role that I took on upon taking up post as Chief Executive on 5 January 2015. This followed the retirement of the previous Chief Executive and Accounting Officer, Peter Handcock CBE on 31 December 2014. With transitional arrangements in place and having completed a detailed, formal handover process, I am confident that all assurances detailed within this statement were in place before this date.

HM Courts & Tribunals Service is an agency of the MoJ whose key aim is to run an efficient and effective courts and tribunals system which enables the rule of law to be upheld and provides access to justice for all.

The former Chief Executive and Accounting Officer established a governance framework and management structure for the organisation to support the management of our key risks. Together with the senior management team, I have reviewed the senior management structure and work is underway to refine the governance structure (see below) throughout 2015-16. I am satisfied that I have the necessary systems and processes in place to maintain an effective system of internal control which supports the achievement of policies, aims and objectives whilst safeguarding the public funds and assets for which I am personally accountable.

This statement describes the control framework in place over the recording and collection of financial impositions, including the penalties imposed by the police service and the remittance of these collections to the relevant parties and the Consolidated Fund. The HM Courts & Tribunals Service Annual Report and Accounts (HC 9) for 2014-15 provides a more detailed explanation of the wider control framework operated by HM Courts & Tribunals Service.

HM Courts & Tribunals Service operates in accordance with our published framework document which sets out the basis of a partnership between the Lord Chancellor (Secretary of State for Justice) and the Lord Chief Justice and Senior President of Tribunals. The framework document was revised and laid before Parliament in July 2014 following the recruitment of three new non-executive director board members.

During the course of this year we have managed a number of risks and control issues. These are reported on in the governance statement within the HM Courts & Tribunals Service Annual Report and Accounts for 2014-15. Risks and issues specific to the Trust Statement are reported here.

2. Governance Framework and Management Structure

Significant aspects of the management structure and framework are detailed below. To ensure continual effectiveness, self-assessment reviews have been carried out during April and May 2015. The results of those reviews and agreed actions can be found in the HM Courts & Tribunals Service Annual Report and Accounts for 2014-15 (HC 9).

The effectiveness reviews consider the quality of information that the board and its committees regularly receive from executive management. This ensures the information meets an appropriate standard to enable effective decision making and provides assurance over the management of the organisation's key risks. There were no issues raised as a result of the reviews. However we strive to continually improve the quality of the information we provide and ensure we respond to the changing needs of our board and committees.

HM Courts & Tribunals Service Board - the Board provides a vital role in shaping and directing the organisation ensuring we are equipped to deliver high quality and cost effective services to court and tribunal users. It provides leadership on the strategic direction for the organisation in delivering the aims and objectives agreed by the Lord Chancellor and the Lord Chief Justice and Senior President of Tribunals. The Board has overall responsibility for Corporate Governance within HM Courts & Tribunals Service.

The Board operates within the parameters of the framework document and the agreed terms of reference. Both of these documents are published on the organisation's intranet. The framework document is also available on the GOV.UK website.

There have been in place two formal sub-committees to the Board which are involved in the oversight and monitoring of the Trust Statement. They are:

The Audit and Risk Assurance Committee – this Committee is an advisory body which supports my role as Chief Executive and Accounting Officer, and the Board in our responsibilities for risk management, control and governance. The Committee reviews the comprehensiveness of assurances from internal and external audit, executive management and other sources, and reviews the reliability and integrity of those assurances. The Committee regularly reviewed the corporate risk register and the production of the Trust Statement during the year. The Chair of the Committee provides a report highlighting and escalating issues to the Board after each quarterly meeting and as and when required the Chair has free and confidential access to the MoJ Audit and Risk Assurance Committee Chair, Internal Audit and Assurance Division and the external auditors.

The Change and Modernisation sub-Committee - the Committee has overall responsibility for developing and promoting change to deliver the strategic objectives of the organisation on behalf of the Board, supporting the Board in its delivery of the agency strategy, policies and services.

Starting in 2015-16, the governance structure has been refined and the sub-committees to the Board will include the Audit and Risk Assurance Committee, the Change Board (formerly the Change and Modernisation sub-committee) and the Reform Board. Further detail can be found in the HM Courts & Tribunals Service Annual Report and Accounts 2014-15.

Full details of the membership and attendance records of the Board and its sub-committees are shown in the schedule in the Appendix.

In addition to the formal governance structure, HM Courts & Tribunals Service also has an executive management structure in place to support day-to-day operational business, including the Enforcement Senior Management Team (SMT) which meets monthly to review the performance and effectiveness of the Enforcement function.

The HM Courts & Tribunals Service Senior Management Team has been restructured for 2015-16 and will be implemented formally during the early part of the year.

Corporate governance in central government departments - code of good practice

This code applies to MoJ directly. However, HM Courts & Tribunals Service has adopted key principles as best practice. A review this year has confirmed compliance with material requirements relevant to the Trust Statement.

Ministerial directions

There have been no ministerial directions relevant to the Trust Statement.

3. Risk management

Risk management systems are in place to identify, assess and prioritise risk efficiently and effectively and to ensure risk is managed to an acceptable level.

The risk policy, encompassing regional, directorate and corporate level risks enables risk to be managed at the appropriate level and escalated where necessary.

Risks relevant to matters reported in the Trust Statement were identified and reviewed regularly by the Accounts Steering Group.

As a result, I am content that risks have been managed and mitigated through effective actions.

The control framework – Key features of the control framework we have had in place during 2014-15 are:

- Segregation of duties and system access rights;
- Monthly and quarterly verification and checking of all system control totals including receipts, payments, outstanding impositions and monies held for third parties;
- Monthly returns to the central finance team, Liberata (the account processing team) and the CPS. Standard templates and a finance manual ensure consistency of format and review and timeliness of preparation;
- Verification of cash balances through completion of daily, monthly and quarterly bank reconciliations at individual accounting centres;
- Changes to defendant records are monitored on a regular basis to ensure that they are fully supported by documentary evidence and approved by an appropriate officer;
- All cases that are presented in court are entered onto the Libra system prior to the case being heard mitigating the risk of cases not being recorded on the Libra system. Following the conclusion of each case the record must undergo a process of being ‘resulted’ in Libra to record the penalty imposed. All un-resulted records are monitored to mitigate the risk of any fines not being recorded on the system.

Despite the framework in place, we have had one new significant control issue this year, which follows below.

Pentip repayments. Due to a system error, we identified a small number of historic cases (436 notices from over 5 million issued) where amounts paid by individuals for a fixed penalty ticket had not been correctly recorded. Individuals are being contacted and issued with an apology and, where required, refunds are being made. Processes have been updated to prevent this happening in the future.

An update on issues reported in 2013-14 is provided below.

Processing motor convictions. As previously reported, the police continue to investigate the resulting of motoring convictions in a number of our magistrates’ courts and charges have been brought against staff and members of the public. Controls have been improved and management teams in the affected courts have been strengthened and additional support provided to give assurance of compliance with mandatory controls. Separately, work is in hand with MoJ policy colleagues to change the legal process for making statutory declarations, to reduce the risk of abuse.

Pentip enforcement system - Previous issues following the implementation of the Pentip fixed penalty system by the Home Office have been fully addressed. Technical issues affecting system reliability have been resolved and some functional changes have been made. As a result the system is fully operational and delivering planned benefits.

The backlogs in financial reconciliation which arose because of the system issues and which impacted the C&AG's opinion on the HM Courts & Tribunals Service Trust Statement for 2012-13 have been cleared, such that the C&AG was able to provide an unqualified audit opinion on the HM Courts & Tribunals Service Trust Statement for 2013-14, which was laid in Parliament in December 2014.

4. Oversight and Assurance

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of my executive managers who have responsibility for the development and maintenance and reporting of the internal control framework, together with observations made by the external auditors in their management letters and other reports.

The Board is updated on the risk profile and effectiveness of the systems of internal control through the receipt of minutes from the Audit and Risk Assurance Committee, through a review of the HM Courts & Tribunals Service performance reports and through direct feedback from the Chair of the Audit and Risk Assurance Committee.

Other key processes designed to provide assurance include:

Director level quarterly and annual governance statements

All central and regional directors submit quarterly statements which include control issues raised by directorate and regional management teams which are escalated and reviewed by Senior Management Teams. These statements include reporting on sources of internal control and this in turn provides assurance of management's compliance with operational policies, procedures and established key controls.

Standard operating controls (SOC) self assessment tool

The SOC is an assurance tool designed to report the level of compliance with mandatory controls set out in standard operating procedures (SOPs) in place at operational level. As reported last year a newly designed SOP template has been developed to increase the quality of service to our customers by ensuring that appropriate key controls are embedded into the SOP.

To increase consistency in testing, evidence gathering and reporting, key control check sheets are issued to staff. Reporting the level of assurance is then captured via a standardised drop down menu within the SOC tool.

To provide for current risk-based assurance, entry onto the SOC is via the application of a risk based criteria and is reviewed and updated quarterly. These quarterly releases provide the means to embed the new style SOPs and further enhanced quality and consistency of assurance for the organisation. This is a large piece of work covering all the major jurisdictions across HM Courts & Tribunals Service. A lot of progress has been made this

year including the enforcement jurisdiction. Work continues in to the new reporting year.

National Audit Office value for money reviews

Reports issued and relevant to the Trust Statement include:

Confiscation Orders (HC 738), 17 December 2013 – this report focussed on the leadership and governance of confiscation orders and the efficiency and effectiveness of the process. Following the recommendations made by both the NAO and the Public Accounts Committee, the Criminal Finances Board (CFB), a Home Office led Board chaired by Ministers and with MoJ and HM Courts & Tribunals Service Membership, developed an improvement plan, which was agreed by all member agencies and organisations including HM Courts & Tribunals Service. The plan currently contains a mixture of medium and longer term objectives aimed at improving the efficiency and effectiveness of confiscation activity. The Criminal Finances Board, which meets quarterly, tracks the progress of the plan to ensure agencies meet their commitments and milestones are delivered. The impact of progress against the medium term objectives is starting to be seen (such as the concerted multi-agency effort on the enforcement of outstanding confiscation orders), and progress against longer term objectives is steady. The NAO is currently engaged in a follow-up review of the report issued in December 2013 with a second report expected towards the end of Autumn.

Fixed penalty notices – inter-agency accountability

As Accounting Officer for HM Courts & Tribunals Service I am responsible under the Road Traffic Offenders Act 1988 for the collection of penalty notices and for their subsequent remittance to the Consolidated Fund.

I maintain effective systems of control in the fixed penalty offices which operate as part of my organisation. However, the end-to-end system of controls and reporting for fixed penalties includes areas for which I have no responsibility. For example, roadside penalties are issued and registered by front line police operating within 43 different constabularies.

Although we do not have control over police policy and procedures, we participate in periodic Pentip stakeholder meetings in order to influence systems control outcomes.

Internal Audit and Assurance

One of the key sources of independent assurance within the agency comes from the activities of its internal audit service provided by MoJ Internal Audit and Assurance, which meets the public sector internal audit standards. The internal audit programme is closely linked to the key risks to the agency and arrangements are in place to ensure that the Accounting Officer is made aware of any significant issues which indicate that key risks are not being effectively managed.

The Head of Internal Audit provided an annual opinion of moderate assurance on the adequacy and effectiveness of the system of governance, risk management and control. Although the majority of audit reports were rated 'moderate' or 'substantial', Internal Audit noted a recurring theme of a lack of compliance with system controls, which is in the process of being addressed.

5 Conclusion

I am satisfied that we have effective governance, risk management and assurance arrangements in place as set out in this statement. Arrangements are under continuous review as the organisation continues to evolve and there will be further changes in the forthcoming year.

Where significant control issues have been identified within this statement, I am satisfied that they are subject to rigorous review and that appropriate, effective and proportionate mitigating activity is in place to manage those issues.



Natalie Ceeney CBE
Chief Executive and Accounting Officer

13 July 2015

Attendance at HM Courts & Tribunals Service Board and Committees 2014-15

	HM Courts & Tribunals Service Board		Audit and Risk Assurance Committee		Change and Modernisation Sub-Committee	
	No. of meetings attended	No. of eligible meetings	No. of meetings attended	No. of eligible meetings	No. of Meetings attended	No. of eligible meetings
Robert Ayling – Independent Chairman	11	12				
Francis Dobbyn – Non-Executive Board Member and Chair of Audit and Risk Assurance committee (from 1 April to 31 March)	11	12	6	6		
Victoria Cochrane – Non-Executive Board Member (From 1 November 2014)	6	6	1	1		
Rachel Osborne – Non-Executive Board Member (from 1 August 2014)	6	8				
Ian Playford – Non-Executive Board member (from 1 August 2014)	8	8				
Lord Justice Sullivan – Senior President of Tribunals ¹	9	12				
Lord Justice Gross – Senior Presiding Judge	11	12				
District Judge Michael Walker – Judicial member	12	12	6	6	7	7
Peter Handcock – Chief Executive (From 1 April to 31 December 2014)	8	8	3	5		
Natalie Ceeney – Chief Executive (From 5 January 2015)	4	4	1	1		

¹ The Senior President of Tribunals was represented by HHJ Sycamore, with full delegated authority, at two Board meetings

	HM Courts & Tribunals Service Board		Audit and Risk Assurance Committee		Change and Modernisation Sub-Committee	
	No. of meetings attended	No. of eligible meetings	No. of meetings attended	No. of eligible meetings	No. of Meetings attended	No. of eligible meetings
Steve Gillespie – Director of Finance and Governance	12	12	6	6	7	7
Guy Tompkins – Director of Crime	9	12			6	7
Kevin Sadler – Director Civil, Family and Tribunals	12	12			7	7
Sarah Albon – Director of Strategy and Change to January 2015					6	7
Dileeni Daniel-Selveratnam – Deputy Director of Strategy and Change					5	7
Chris Ball – HR Director to Oct 14					3	5
Rod Davies – HR Director from Nov 14					2	2
Paul Shipley – IT Director					6	7
HHJ Sycamore – Judicial Representative to July 14					3	4
Judge John Aitken from Sept 14					2	3
Lucy Garrod – Delivery Director, Midlands					7	7
Project Office Management Representative					7	7
Representative - Change Finance					7	7
Judge Nick Warren – Judicial Member (From 1 April to 31 December 2015)			5	5		
Judge Brian Doyle (from 5 January 2015)			1	1		
Penny Seera – Head of Financial Accounts and Governance and Assurance			4	6		

	HM Courts & Tribunals Service Board		Audit and Risk Assurance Committee		Change and Modernisation Sub-Committee	
	No. of meetings attended	No. of eligible meetings	No. of meetings attended	No. of eligible meetings	No. of Meetings attended	No. of eligible meetings
Andrea Emms – Head of Risk and Assurance			3	4		
Tim Watkinson – Head of MoJ Internal Audit and Assurance			6	6		
National Audit Office			6	6		

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

I certify that I have audited the trust statement of Her Majesty’s Courts and Tribunals Service (HMCTS) for the year ended 31 March 2015 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Revenue and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of 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 circumstances of the HMCTS trust statement and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by HMCTS; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the sections entitled “Accounting Officer’s Foreword to the Trust Statement”, “Introduction to the Trust Statement” and “Business overview” 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 HMCTS Trust Statement gives a true and fair view of the state of affairs of the collection and settlement of fines, penalties, confiscation orders and related expenditures and disbursements administered by HMCTS as at 31 March 2015, and of the net revenue 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 information given in the section entitled “Business overview” for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse KCB
Comptroller and Auditor General

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

14 July 2015

Statement of Revenue and Expenditure for the year ended 31 March 2015

	Notes	2014–15 £000	Restated 2013–14 £000
Impositions revenue			
Fines and penalties			
Court fines		213,611	190,728
Miscellaneous Consolidated Fund receipts		4,834	4,456
Fixed penalty notices		96,925	103,316
Crown prosecutors' costs		34,970	37,566
Prosecutors' costs		79,618	66,213
Compensation		34,902	30,720
Confiscation orders	4.1	269,719	222,624
Victim surcharge		35,203	30,970
Total impositions revenue		769,782	686,593
Less expenditure			
Credit losses	2	50,833	138,439
Total expenditure		50,833	138,439
Less disbursements			
Revenue retained by the Ministry of Justice	3	266,141	109,953
Prosecutors' costs for the Crown Prosecution Service		44,091	34,890
Prosecutors' costs		82,854	53,616
Compensation for other parties		52,969	30,549
Confiscation orders for Home Office		179,849	133,832
Victim surcharge for the Ministry of Justice		26,183	22,921
Total disbursements		652,087	385,761
Total expenditure and disbursements		702,920	524,200
Net revenue for the Consolidated Fund	6	66,862	162,393

Statement of Financial Position as at 31 March 2015

	Notes	2014–15 £000	Restated 2013–14 £000
Current assets			
Receivables	4	490,532	339,373
Cash at bank – fines & other impositions		61,882	67,751
Cash at bank – fixed penalties		13,461	13,565
Total assets		565,875	420,689
Current liabilities			
Payables	5	385,254	277,602
Total liabilities		385,254	277,602
Total net assets		180,621	143,087
Represented by:			
Balance on Consolidated Fund	6	180,621	143,087



Natalie Ceeney CBE
Chief Executive and Accounting Officer
13 July 2015

The notes on pages 32 to 51 form part of this statement

Statement of Cash Flows for the year ended 31 March 2015

	Notes	2014–15 £000	2013–14 £000
Net cash flow from operating activities	7	23,355	144,628
Cash paid to the Consolidated Fund	6	(29,328)	(147,711)
Decrease in cash in the period		(5,973)	(3,083)

Analysis of changes in net funds

	2014–15 £000	2013–14 £000
Net funds at beginning of period – 1 April	81,316	84,399
Net funds at end of period – 31 March	75,343	81,316
Decrease in cash in the period	(5,973)	(3,083)

The following balances as at 31 March were held at:

	2014–15 £000	2013–14 £000
Government Banking Service	74,891	80,102
Commercial banks	452	1,214
Total cash balances	75,343	81,316

The notes on pages 32 to 51 form part of this statement.

Notes to the Trust Statement

1. Statement of accounting policies

The Trust Statement is prepared in accordance with:

- the 2014–15 Financial Reporting Manual (FReM) issued by HM Treasury, in particular Chapter 8.2 which deals with Consolidated Fund revenue and Trust Statements. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as interpreted for the public sector.
- the 2014–15 accounts direction issued by HM Treasury on 18 December 2014 under section 7(2) of the Government Resources and Accounts Act 2000.

The particular policies adopted in the Trust Statement are described below. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts. Where policies have been changed during the year, the comparatives have been restated to reflect the effect of the change on prior periods.

1.1 Basis of Preparation

The Trust Statement has been prepared under the historical cost convention modified to account for the valuation of receivables and payables.

The preparation of the accounts in conformity with IFRS requires the use of certain critical accounting estimates (see note 1.8). It also requires management to exercise its judgement in the process of applying the accounting policies.

The income and associated expenditure recognised in these statements reflect those flows of funds which HM Courts & Tribunals Service receives and surrenders, in its capacity as agent, on behalf of the Consolidated Fund and other entities.

1.2 Revenue Recognition

Fines and penalties are measured in accordance with Financial Reporting Manual (FReM), chapter 8.2. They are measured at the fair value of amounts received or receivable, net of judicial remissions. Revenue is recognised when a fine or penalty is validly imposed and an obligation to pay arises. Where a penalty is cancelled due to attendance at a training course, as a result of an appeal or for other legal reasons or as a result of settlement by other valid means including imprisonment, revenue is derecognised and the derecognition of revenue is recorded as a reduction against revenue.

1.3 Expenditure

Credit losses (imposition write-offs and the change in the value of impairment for the year) are accounted for on an accruals basis. Debts written off as uncollectible and any change in the value of impairment are shown as expenditure. Underlying legislation precludes the write-off of confiscation order debt and adjustments to reflect recoverability are included in the impairment charge.

1.4 Disbursements

Disbursements are shown net of impairment and write-offs in accordance with the requirements of the FReM and IAS 39. An accrual for disbursements is made based on the value of impositions payable to parties other than the Consolidated Fund.

The MoJ is permitted to retain as income part of the value of fines and fixed penalties collected. Where part of the revenue collected is permitted to be retained, the amount to be retained is required by the FReM to be recorded as an appropriation of net revenue in the Trust Statement. As such, these retentions are disclosed in the Statement of Revenue and Expenditure as a disbursement to the MoJ. The following retentions of revenue by the MoJ are permitted by HM Treasury:

Revenue retained towards the cost of collection and administration.

These retentions comprise netting-off and fine incentive scheme income:

- the warrant enforcement scheme which permits the retention of an amount equal to the pre-courts act 2003 cost of enforcing and collecting fines;
- the Courts Act national roll-out scheme, permitting MoJ to retain an amount equal to the employment costs of the court officers appointed in compliance with the Courts Act 2003;
- Fine incentive scheme which permits the MoJ to retain an amount of fines collected in excess of an agreed payment rate, up to maximum of £20m.

The associated revenue from which the amount retained is derived is recorded within court fines imposition revenue at the gross amount of the imposition.

Revenue retained for Victims' Services.

With the agreement of HM Treasury, MoJ's justice reform unit retains £30 million per annum of additional revenue raised from fixed penalties issued for motoring offences in order to fund services provided to the victims of crime. In respect of penalty notices for disorder (PND), an amount of £10 per penalty notice issued and paid is retained by the justice reform unit of MoJ in order to fund services provided to the victims of crime.

The associated revenue from which the amount retained is derived is recorded within fixed penalty notice imposition revenue at the gross amount of the imposition.

Revenue retained under Spending Round settlements.

As part of the Spending Round 2013 settlement for the financial years ended 2014-15 and 2015-16, HM Treasury has permitted the MoJ to retain collections from fines and fixed penalty impositions. The additional amount permitted to be retained in 2014-15 is capped at £145m. The amount permitted to be retained in 2015-16 is capped at £340m for all retentions.

1.5 Net revenue for the Consolidated Fund

Net Revenue for the Consolidated Fund is the value of impositions for the year from court fines and fixed penalty notices, net of: impairment; write-offs; revenue retained by the MoJ, either under statute or with permission from HM Treasury, and; fixed penalty revenue retained by the MoJ for funding victims' services.

1.6 Receivables

Receivables are shown net of impairments in accordance with the requirements of the FReM and IAS 39. Each class of debt has been assessed separately using performance reports to provide data concerning recoverability and the length of time it takes for debt to be repaid.

The fair value of receivables is determined by making an impairment to reduce the carrying value of receivables to the net present value of the estimated future flow of repayments discounted at HM Treasury's interest rate, currently 2.2% (2014: 2.2%).

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on any market. Receivables are derecognised when the rights to receive cash flows from the assets have expired.

1.7 Payables

Payables are accounted for on an accruals basis. Because HM Courts & Tribunals Service is acting as agent in the collection of all financial penalties imposed, the total value of payables, excluding the amount on which cash has been received at year end, is derived from the fair value of receivables net of impairment at the balance sheet date.

1.8 Critical accounting judgements and estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

When preparing the Trust Statement, HM Courts & Tribunals Service makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment

to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment of debt and credit losses

Receivables are shown net of impairments in accordance with the requirements of the FReM and IAS 39. The fair value of receivables is determined by making an impairment to reduce the carrying value of receivables to the net present value of the estimated future flow of repayments discounted at the interest rate set by HM Treasury. The fair value of receivables is dependent on ongoing collection rates as well as the discount rate used in the valuation. The current year's impairment has been calculated based on a review of specific high value receivables combined with a collective assessment for all other debt. The collective impairment assessment is based on an analysis of past collection history projected forward to provide a payment stream which is then discounted back at the Treasury rate of 2.2% (2014: 2.2%) to calculate the net present value.

A sensitivity analysis of the key assumptions inherent in the impairment calculation is included in note 9 to these Financial Statements.

1.9 Prior period adjustments for errors

Where material errors in respect of the recognition, measurement, presentation or disclosure of elements of financial statements are discovered in subsequent periods, these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.

Prior period errors relating to the recognition of fixed penalty revenue, judicial cancellations and interest accrued on cancelled confiscation orders were discovered in the 2014-15 period and have necessitated retrospective adjustments to the Statements of Revenue and Expenditure and Financial Position. The effect of the restatement is presented in note 8 to the accounts.

2. Credit Losses

	Notes	2014–15 £000	2013–14 £000
Debts written off	2.1	64,698	93,203
(Decrease) / increase for year in impairment of receivables	4	(13,865)	45,236
Total		50,833	138,439

2.1 Debts written off

	2014–15 £000	2013–14 £000
Court fines	45,345	68,214
Crown prosecutors' costs	3,747	5,761
Prosecutors' costs	10,558	14,880
Compensation	2,685	1,952
Victim surcharge	2,363	2,396
Total	64,698	93,203

Debts written off are the amounts reportable to Parliament under rules on disclosure of losses and write-offs in *Managing Public Money Annex A.4.10.24.* under the category of 'Claims waived or abandoned'. Included in debts written off are the following:

	2014–15 No.	2014–15 £	2013–14 No.	2013–14 £
Individual write-offs over £300,000	2	800,120	4	2,340,407
Made up of:				
Company wind-ups and liquidations	2	800,120	3	2,022,506
Untraceable debtors	-	-	1	317,901
Total	2	800,120	4	2,340,407

There are no other losses or special payments reportable.

3. Revenue Retained by the Ministry of Justice

The following retentions of revenue by the MoJ are permitted by HM Treasury:

	2014–15 £000	2013–14 £000
Revenue retained by MoJ towards the cost of collection and administration:		
Warrant enforcement revenue	66,600	66,600
Fine incentive revenue	17,341	17,473
Courts Act revenue	6,900	6,900
	90,841	90,973
Fixed penalty revenue retained by MoJ for Victims' Services:		
Retained from fixed penalties for motor offences	30,000	18,740
Retained from fixed penalties for PNDs	300	240
	30,300	18,980
Revenue retained by MoJ under Spending Round settlements:		
Retained from fine collections	74,595	-
Retained from fixed penalty collections	70,405	-
	145,000	-
Total	266,141	109,953

4. Receivables

2014–15	Fines £000	Fixed Penalty Notices £000	Crown Prosecutors' Costs £000	Prosecutors' Costs £000	Compensation £000	Confiscation Orders £000	Victim Surcharge £000	Total £000
<u>Impositions outstanding</u>								
At 1 April 2014 as previously reported	335,377	51,525	53,147	73,714	67,918	1,491,223	21,110	2,094,014
Restatement ³	-	(22,464)	-	-	-	(37,536)	-	(60,000)
At 1 April 2014 restated	335,377	29,061	53,147	73,714	67,918	1,453,687	21,110	2,034,014
New impositions	213,611	96,925	34,970	79,618	34,902	269,719	35,203	764,948
Collections	(163,643)	(103,070)	(32,871)	(60,119)	(29,043)	(149,641)	(24,569)	(562,956)
Write-offs	(45,345)	-	(3,747)	(10,558)	(2,685)	-	(2,363)	(64,698)
At 31 March 2015	340,000	22,916	51,499	82,655	71,092	1,573,765	29,381	2,171,308
<u>Impairment</u>								
At 1 April 2014 as previously reported	250,742	-	40,622	55,622	54,218	1,318,428	12,545	1,732,177
Restatement ³	-	-	-	-	-	(37,536)	-	(37,536)
At 1 April 2014 restated	250,742	-	40,622	55,622	54,218	1,280,892	12,545	1,694,641
Increase/(decrease) for the year	(62,977)	-	(12,868)	(13,794)	(20,752)	89,869	6,657	(13,865)
At 31 March 2015	187,765	-	27,754	41,828	33,466	1,370,761	19,202	1,680,776

³ The restatement is described in note 8.

2014–15	Fines £000	Fixed Penalty Notices £000	Crown Prosecutors' Costs £000	Prosecutors' Costs £000	Compensation £000	Confiscation Orders £000	Victim Surcharge £000	Total £000
Receivables Net Book Value at 31 March 2015	152,235	22,916	23,745	40,827	37,626	203,004	10,179	490,532
Receivables Net Book Value at 31 March 2014 (Restated)	84,635	29,061	12,525	18,092	13,700	172,795	8,565	339,373

4.1 Confiscation Order Revenue

Confiscation order revenue comprises:

	2014–15 £000	Restated 2013–14 £000
Imposed	261,085	233,620
Interest	78,086	71,223
Judicial cancellations	(69,452)	(82,219)
Total	269,719	222,624

In accordance with the FReM, confiscation order revenue is measured at the fair value of amounts received or receivable net of judicial cancellations.

4.2 Confiscation Order debt – value banding by lead agency

	HMCTS £000	SFO £000	CPS £000	2014–15 Total £000	HMCTS £000	SFO £000	CPS £000	Restated 2013–14 Total £000
Gross debt								
Up to £250,000	192,196	1,153	52,490	245,839	187,119	1,552	91,117	279,788
£250,001 – £500,000	85,456	2,845	46,942	135,243	76,102	3,731	52,608	132,441
£500,001 – £1,000,000	123,727	4,710	63,353	191,790	99,845	5,286	64,963	170,094
Over £1,000,000	461,515	150,023	389,355	1,000,893	337,310	128,066	405,988	871,364
Total gross debt	862,894	158,731	552,140	1,573,765	700,376	138,635	614,676	1,453,687
Impairment								
Up to £250,000	157,286	840	33,410	191,536	164,021	1,253	67,199	232,473
£250,001 – £500,000	76,041	2,098	33,324	111,463	66,084	3,386	41,666	111,136
£500,001 – £1,000,000	113,378	3,773	48,416	165,567	90,689	4,461	52,676	147,826
Over £1,000,000	437,894	130,890	333,411	902,195	306,795	117,385	365,277	789,457
Total impairment	784,599	137,601	448,561	1,370,761	627,589	126,485	526,818	1,280,892
Net book value								
Up to £250,000	34,910	313	19,080	54,303	23,098	299	23,918	47,315
£250,001 – £500,000	9,415	747	13,618	23,780	10,018	345	10,942	21,305
£500,001 – £1,000,000	10,349	937	14,937	26,223	9,156	825	12,287	22,268
Over £1,000,000	23,621	19,133	55,944	98,698	30,515	10,681	40,711	81,907
Total net book value	78,295	21,130	103,579	203,004	72,787	12,150	87,858	172,795

The total gross debt is made up of 10,379 cases, of which: 9,478 (91%) are of value up to £250,000; 407 (4%) are between £250,001 – £500,000; 255 (3%) are between £500,001 – £1,000,000, and; 239 (2%) are over £1,000,000.

4.3 Confiscation Order debt – aged debt profile by lead agency

	HMCTS	SFO	CPS	2014–15 Total	HMCTS	SFO	CPS	Restated 2013–14 Total
	£000	£000	£000	£000	£000	£000	£000	£000
Gross debt								
0 – 1 year	62,846	15,546	106,898	185,290	61,137	1,613	94,264	157,014
1 – 2 years	33,033	2,006	67,168	102,207	58,569	41,142	100,176	199,887
2 – 5 years	203,039	73,523	175,795	452,357	178,223	29,638	147,165	355,026
Over 5 years	563,976	67,656	202,279	833,911	402,447	66,242	273,071	741,760
Total gross debt	862,894	158,731	552,140	1,573,765	700,376	138,635	614,676	1,453,687
Impairment								
0 – 1 year	27,582	3,102	63,096	93,780	32,125	812	51,420	84,357
1 – 2 years	21,851	1,180	41,907	64,938	43,394	37,777	84,964	166,135
2 – 5 years	176,207	65,688	146,302	388,197	154,435	24,531	123,510	302,476
Over 5 years	558,959	67,631	197,256	823,846	397,635	63,365	266,924	727,924
Total impairment	784,599	137,601	448,561	1,370,761	627,589	126,485	526,818	1,280,892
Net book value								
0 – 1 year	35,264	12,444	43,802	91,510	29,012	801	42,844	72,657
1 – 2 years	11,182	826	25,261	37,269	15,175	3,365	15,212	33,752
2 – 5 years	26,832	7,835	29,493	64,160	23,788	5,107	23,655	52,550
Over 5 years	5,017	25	5,023	10,065	4,812	2,877	6,147	13,836
Total net book value	78,295	21,130	103,579	203,004	72,787	12,150	87,858	172,795

The total debt is made up of 10,379 cases, of which: 3,549 (34%) are between 0 – 1 years old; 1,322 (13%) are between 1 – 2 years old; 2,484 (24%) are between 2 – 5 years old, and; 3,024 (29%) are over 5 years old.

5. Payables

2014–15	On which cash received £000	On which cash receivable £000	2014–15
			Total £000
Home Office	34,561	203,004	237,565
Crown Prosecution Service	169	23,745	23,914
Prosecutors' costs, compensation	7,790	78,453	86,243
Victim surcharge	2,485	10,179	12,664
Fines and fixed penalty receipts payable to MoJ	9,882	-	9,882
Other	14,986	-	14,986
Total	69,873	315,381	385,254

2013–14	On which cash received £000	On which cash receivable £000	2013–14
			Total £000
Home Office	30,526	172,795	203,321
Crown Prosecution Service	168	12,525	12,693
Prosecutors' costs, compensation	6,000	31,792	37,792
Victim surcharge	2,025	8,565	10,590
Fines and fixed penalty receipts payable to MoJ	-	-	-
Other	13,206	-	13,206
Total	51,925	225,677	277,602

6. Balance on the Consolidated Fund Account

	2014–15 £000	Restated 2013–14 £000
Balance on the Consolidated Fund at 1 April – as previously reported	165,551	138,315
Restatement (note 8)	(22,464)	(9,910)
Balance on the Consolidated Fund at 1 April – restated	143,087	128,405
Net Revenue for the Consolidated Fund	66,862	162,393
Less: amount paid to the Consolidated Fund	(29,328)	(147,711)
Balance on the Consolidated Fund at 31 March	180,621	143,087

The balance on the Consolidated Fund comprises:

2014–15	On which cash received £000	On which cash receivable £000	2014–15 Total £000
Balance on Consolidated Fund Account as at 1 April - restated	29,391	113,696	143,087
Balance on Consolidated Fund Account as at 31 March	5,470	175,151	180,621

2013–14	On which cash received £000	On which cash receivable £000	Restated 2013–14 Total £000
Balance on Consolidated Fund Account as at 1 April - restated	35,274	93,131	128,405
Balance on Consolidated Fund Account as at 31 March - restated	29,391	113,696	143,087

7. Notes to the Statement of Cash Flows

	Notes	2014–15 £000	Restated 2013–14 £000
Net cash flow from operating activities is derived as follows:			
Net revenue for the Consolidated Fund	6	66,862	162,393
Adjustment for non-cash items:			
Impairment (write-back) / write-off	2	(13,865)	45,236
(Increase) / decrease in gross receivables		(137,294)	(70,730)
Increase / (decrease) in payables		107,652	7,729
Net cash flow from operating activities		23,355	144,628

8. Changes in Accounting Policy and Prior Period Errors

Early recognition of fixed penalty revenue.

In the case of camera detected offences, a fixed penalty is validly imposed when the offender is issued with a conditional offer of a fixed penalty (COFP) at which point revenue is recognised. In order to facilitate monitoring and enforcement activity at the earliest opportunity, the recording of some fixed penalty offences on Pentip (the national system for administering Fixed Penalties) has historically taken place in advance of the relevant Police Authority issuing COFPs leading to revenue being recognised in advance of a valid imposition. This early recording of fixed penalty notices has necessitated a retrospective adjustment to the Statements of Revenue and Expenditure and Financial Position in order to derecognise revenue relating to offences for which Police Authorities had not issued a conditional offer of a fixed penalty at the respective balance sheet dates.

Late recording of judicial cancellations.

Documentation relating to judicial cancellations of confiscation orders enforced by the CPS was received late. As a result, two judicial cancellations for £4,830,000 and £9,427,123 relating to financial years 2012-13 and 2013-14 respectively were recorded in 2014-15. The comparatives have been adjusted to reflect the cancellations in the correct prior periods. Because the related orders had been fully impaired, there is a write-back of the related impairment charge when recording the cancellation in the relevant prior period and, consequently, the net impact on both the Statements of Revenue and Expenditure and Financial Position is nil.

Reversal of interest accrued on confiscation orders cancelled.

A review during the 2014-15 financial year of interest accrued in the JARD confiscation order database revealed accumulated interest balances on orders that had been cancelled or varied in previous periods. This has necessitated a retrospective adjustment to the comparatives to reflect a reversal of £23,279,000 of interest on cancelled orders in the correct prior periods. Because the interest balances reversed in 2014-15 had been fully impaired in previous periods, there is a write-back of the related impairment charge when recording the reversal in the relevant prior period and, consequently, the net impact on both the Statements of Revenue and Expenditure and Financial Position is nil.

In respect of the errors described above, the details of the prior period adjustments are outlined below for each of the financial statement lines affected and a reconciliation of the items comprising the net adjustment to the Statement of Revenue and Expenditure and the Statement of Financial Position is included.

8.1 Restatements affecting the Statement of Revenue and Expenditure for the year ended 31 March 2014.

Statement of Revenue and Expenditure	31 March 2014		31 March 2014
	As previously reported £000	Adjustment £000	Restated £000
Impositions revenue			
Court fines	190,728	-	190,728
Miscellaneous Consolidated Fund Receipts	4,456	-	4,456
Fixed penalty notices	115,870	(12,554)	103,316
Crown prosecutors' costs	37,566	-	37,566
Prosecutors' costs	66,213	-	66,213
Compensation	30,720	-	30,720
Confiscation orders	241,046	(18,422)	222,624
Victim surcharge	30,970	-	30,970
Total impositions revenue	717,569	(30,976)	686,593
Less: expenditure			
Total credit losses	156,861	(18,422)	138,439
Disbursements	385,761	-	385,761
Total expenditure and disbursements	542,622	(18,422)	524,200
Net revenue for the Consolidated Fund	174,947	(12,554)	162,393

The net decrease of £12,554,000 in the net revenue for the Consolidated Fund as previously reported is made up as follows:

	Adjustment £000
Reversal in 2014 of over-recorded revenue derecognised in 2013 (see note 8.3)	9,910
Derecognition of over-recorded 2014 revenue	(22,464)
Recognising legal cancellation on confiscation order in correct period	(9,427)
Recognising interest variations on confiscation orders in correct period	(8,995)
Write-back of impairment on confiscation order cancellations and interest variations	18,422
Net adjustment to net revenue for the Consolidated Fund	(12,554)

8.2 Restatements affecting the Statement of Financial Position at 31 March 2014.

Statement of Financial Position	31 March 2014 As previously reported £000	Adjustment £000	31 March 2014 Restated £000
Current Assets			
Gross receivables	2,094,014	(60,000)	2,034,014
Impairment	(1,732,177)	37,536	(1,694,641)
Net receivables	361,837	(22,464)	339,373
Cash at bank	81,316	-	81,316
Total assets	443,153	(22,464)	420,689
Current liabilities			
Payables on which cash received	51,925	-	51,925
Payables on which cash receivable	225,677	-	225,677
Total payables	277,602	-	277,602
Net assets	165,551	(22,464)	143,087
Represented by:			
Balance on Consolidated Fund	165,551	(22,464)	143,087
Balance on which cash received	29,391		29,391
Balance on which cash receivable	136,160	(22,464)	113,696

The net decrease of £22,464,000 in net assets and the Consolidated Fund balance as previously reported is made up as follows:

	Adjustment to Consolidated Fund £000	Adjustment to other assets and liabilities £000	Total adjustment £000
Derecognition of over-recorded revenue included in debtors at 31 March 2014.	22,464	(22,464)	-
Legal cancellations on confiscation orders relating to prior periods processed in 2014-15	-	(14,257)	(14,257)
Reversal of interest on confiscation orders varied in prior periods	-	(23,279)	(23,279)
Write-back of impairment on legal cancellations and interest variations	-	37,536	37,536
Net decrease in net assets and balance on Consolidated Fund	22,464	(22,464)	-

8.3 Restatements affecting Statement of Financial Position at 31 March 2013.

The net decrease of £9,910,000 in the opening Consolidated Fund Balance as previously reported is due to an adjustment to the closing fixed penalty notice debtors at 31 March 2013 to derecognise revenue relating to offences for which Police Authorities had not issued a conditional offer of a fixed penalty at that date.

The effect of this adjustment on the 31 March 2013 Statement of Financial Position is summarised below:

	31 March 2013		31 March 2013
	As previously reported	Adjustment	Restated
	£000	£000	£000
Current Assets			
Net receivables	323,788	(9,910)	313,878
Cash at bank	84,399		84,399
Total assets	408,187	(9,910)	398,277
Current liabilities			
Payables on which cash received	49,125		49,125
Payables on which cash receivable	220,747		220,747
Total payables	269,872	-	269,872
Net assets	138,315	(9,910)	128,405
Represented by:			
Balance on consolidated Fund	138,315	(9,910)	128,405
Balance on which cash received	35,274		35,274
Balance on which cash receivable	103,041	(9,910)	93,131

9. Financial Instruments

On behalf of the Consolidated Fund and other parties, HM Courts & Tribunals Service is party to financial instrument arrangements as part of its normal operations. These financial instruments include bank accounts, receivables and payables.

IFRS 7, 'Financial Instruments: Disclosures', requires disclosure of the role that financial instruments have had during the year in creating or changing risks an entity faces in the course of its operations. As HM Courts & Tribunals Service is acting as agent on behalf of the Consolidated Fund and other parties in collecting and surrendering financial penalties imposed by the judiciary and the police, it cannot incur losses through the Trust Statement. Write-offs and impairment charges disclosed in the Income and Expenditure Statement reflect the non-recoverability of gross debt since its obligation to surrender financial penalties is limited to the amount it is able to collect in revenue. HM Courts & Tribunals Service, on behalf of the Consolidated Fund and other parties, has no requirement to borrow or invest surplus funds. As such, HM Courts & Tribunals Service, in its capacity as agent, is not exposed to the degrees of financial or market risk facing a business entity acting as principal.

a) Carrying amount and fair values

The fair value of cash balances approximate their carrying amount largely owing to the short term maturity of this financial instrument which is less than three months.

The fair value of receivables is determined by making an impairment to reduce the carrying value of receivables to the net present value of the estimated future flow of repayments discounted at the Treasury rate of 2.2% (2014: 2.2%).

The key assumption inherent in the model used to calculate the impairment provision is that the estimated future flow of repayments reflects historical trends. The impact of the following reasonable possible alternatives to this assumption is reflected in the table below:

Assumption	Change in assumption	Increase / (decrease) in net receivables	
		2014-15 £m	2013-14 £m
Projected cash collections	+10%	41.7	23.9
Projected cash collections	+5%	20.8	11.9
Projected cash collections	-10%	(41.7)	(23.9)
Projected cash collections	-5%	(20.8)	(11.9)

The effect of a change in the discount rate has not been calculated as this is set by HM Treasury and is therefore not subject to management judgement.

The fair value of payables on which cash is receivable at the balance sheet date is derived from the fair value of the related receivables balance.

b) Liquidity risk

Liquidity risk is the risk that HM Courts & Tribunals Service, on behalf of the Consolidated Fund and other parties, will encounter difficulty raising liquid funds to meet commitments as they fall due. HM Courts & Tribunals Service is obliged to surrender only those funds that it has collected and banked. As such, HM Courts & Tribunals Service, in its capacity as agent, does not have significant liquidity risk.

c) Credit risk

Credit risk is the risk that a third party will default on its obligation to HM Courts & Tribunals Service on behalf of the Consolidated Fund and other parties, thereby causing the Consolidated Fund and other parties, for whom HM Courts & Tribunals Service acts as agent, to incur a loss.

Credit risk arises from deposits with banks and receivables. The maximum exposure to credit risk at the balance sheet date is:

	2014–15 £000	2013–14 £000
Cash at bank	75,343	81,316
Receivables	490,532	339,373
	565,875	420,689

Cash at bank comprises liquid bank balances held with commercial banks, including those administered through the GBS.

The size of the risk inherent within the trade receivables balance (shown net of impairment above) is reflected in the receivables impairment which totals £1,680,776,000 (2013–14: £1,694,641,000). HM Courts & Tribunals Service, through the Governance and Risk management structures outlined in the Governance Statement, continues to assess and implement programmes to increase collection of receivables.

d) Currency risk and interest rate risk

There is no exposure to currency risk as all financial penalties are imposed, collected and payable in sterling. Whilst interest is charged on unpaid confiscation orders, the interest charged on the outstanding receivable balance is only payable to the Home Office when received from the debtor.

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