



Legal Aid  
Agency

# Legal Aid Agency

Annual Report and Accounts  
2016-17









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# Legal Aid Agency **Annual Report and Accounts 2016-17**

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## OGI

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# Performance report





## Chief Executive's statement

I am pleased to introduce the fourth Annual Report and Accounts of the Legal Aid Agency (LAA). As I look back on my first year since taking up the role of Chief Executive, I would like to say how grateful I am to everyone in the LAA for their hard work and commitment. Digital change has continued to underpin our administrative improvements to the efficient delivery of legal aid. Applications and bills are now being processed through both civil and crime online systems and we continue to invest and improve on our IT infrastructure. Internally, the LAA has led the way with flexible working strategies to allow staff to work at different locations. This has put us in a strong position as we evolve simpler and smarter ways of working. We also continue to invest in programmes to build the capabilities of our workforce.

Our collaborative approach to working with stakeholders across the justice system has continued through regular communications, attendance at engagement forums and the management of provider contracts.

### Strategic Objective 1



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

The transfer to digital working has been a huge change and success. It has become mandatory to make applications for:

- civil and family certificated work through the Client and Cost Management System (CCMS) from 1 April 2016
- criminal legal aid using eForms from 4 July 2016.

Digital change has made us more efficient and the progress on online working complements the government's commitment to digital transformation. Work has also been taking place on changes to our Crown Court fee schemes. The intention is that these should be reformed and simplified to take greater account of electronic ways of working.

There has also been significant commissioning activity for the renewal and re-tendering of business critical civil and crime contracts.

Our financial stewardship has ensured that we have remained within 1% of our Departmental Expenditure Limit (DEL) budget for both administration and fund spend. We are also within target for the processing times of billing and applications.

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

Flexible working and the reshaping of our workplaces have continued to benefit both our staff and the organisation. I am particularly proud that engagement scores continue to rise and the LAA now ranks second across the Civil Service for inclusion and fair treatment.

The size of the workforce has reduced, but we continue to invest in our people to ensure that we have the right skills to match the needs of the organisation.

Our commitment to engagement remains strong with our senior management regularly meeting with teams at sites across England and Wales to discuss priority issues and listen to the views of staff.

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

Partnership working and a collaborative approach have long been key to our determined efforts to drive up quality and efficiency in the delivery of legal aid on behalf of the government and the taxpayer.

We seek to be open and transparent about what we do and we communicate and work with both legal aid providers and stakeholders. We hold regular meetings with external representative bodies through the Crime and Civil Contract Consultative Groups. Contract managers and case management staff work with providers and help us to improve the quality of our work and the processing of applications and bills.

Our relationships with partner organisations in the Ministry of Justice (MoJ) and across government continue to strengthen. Key partners include the Criminal Injuries Compensation Authority (CICA) and the Office of the Public Guardian (OPG) through the Justice Delivery Programme. This is important to efforts across the MoJ to deliver smarter, simpler and more efficient ways of working: for example, sharing resource, expertise and knowledge.

We are also working with the police, HM Courts & Tribunals Service (HMCTS) and the Crown Prosecution Service (CPS) through the introduction of shared processes under the 'Criminal Justice System (CJS) Common Platform'. These are transforming the way practitioners work in the CJS.

It has been a very busy year for the organisation and I am very appreciative of the whole LAA team. We have a culture which places great value on commitment, resilience and teamwork, and we support one another at all levels to achieve our goals. Everyone has shown great energy to push through programmes of work, implement new ways of working and adapt to change. I think that puts us in a good place for next year as new targets are set and we position ourselves to support the wider MoJ strategy for reform and action in key areas set by the government.

We will also continue to remember the bigger picture. Our job is to ensure the money we manage for the taxpayer is used as effectively as possible to ensure quality legal aid provision for everyone who qualifies. It is at the heart of what we do and is a strong imperative for the future success of the LAA.

**Shaun McNally CBE**

Chief Executive and Accounting Officer

Legal Aid Agency

11 July 2017



## Our achievements



We paid  
**97%**  
bills in a month  
(target over 90%)

Processing / delivery



Over  
**90%**  
of our submitted  
applications and bills were  
completed online

Processing / delivery



We moved from  
3rd to **2nd**  
place overall in the  
Civil Service People  
Survey for fairness  
and inclusion

Our people



We **won** the skills  
category of the 2016 Civil  
Service Awards for building  
digital capability

Our People



We have reduced  
annual travel by  
**2.9 million kms,**  
enough to lap the globe  
**72 times**  
(compared to 2014-15)

Finance and efficiency



We received over  
**230,000**  
phone calls to our call  
centres and maintained a  
high level of performance  
and customer satisfaction

Reputation



## 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, family and criminal justice systems and we have worked closely with legal aid providers and the wider MoJ to attain this. Our purpose has been at the core 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 this.

Our purpose is underpinned by our three Strategic Objectives (SOs):



Further detail on our SOs can be found on page 10.

These objectives have served us well for the past four years and the LAA has come a long way in that time, so we will be revising and refocussing our SOs for 2017-18. These will continue to provide the direction that supports our work to improve and modernise the LAA, ensure our people have the right skills and tools to carry out their roles and strengthen our partnerships across the justice system.

This is part of the MoJ vision outlined in the MoJ's Single Departmental Plan at [www.gov.uk/government/publications/moj-single-departmental-plan-2015-to-2020/single-departmental-plan-2015-to-2020](http://www.gov.uk/government/publications/moj-single-departmental-plan-2015-to-2020/single-departmental-plan-2015-to-2020)

Further detail on the new SOs and our plans for the future can be found on page 25.

## What we do

Process applications and pay bills for legal aid



Have a commissioning and strategy function which designs, develops and tenders new contracts



The LAA administers legal aid throughout England and Wales.



Provide independent defence representation for crime cases through the Public Defender Service



Have contract managers who work closely with our provider base to manage relationships and ensure the smooth running of our contracts

## All of this is supported by

A Finance and Digital directorate which administers payment of legal aid, ensures financial requirements are met and supports delivery of key change programmes and our move to digitise services and automate processes.

A corporate function that ensures effective communications, supports our Board and Executive Leadership Team, addresses escalated complaints, and answers Freedom of Information (FOI) and Data Protection Act (DPA) requests.

Shared functions, including human resources and legal services, which provide support to the LAA, MoJ and other government departments.



## The Public Defender Service

The Public Defender Service (PDS) was established in 2001 to provide defence representation directly to the public in all types of criminal cases, existing alongside the contracted criminal legal aid providers. Our offices are based in Cheltenham, Darlington, Pontypridd and Swansea, with PDS advocates providing services throughout England and Wales.

## 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 that the decision-making process for legal aid remained independent from ministers. The role of Director of Legal Aid Casework (DLAC) was created as a result of the LASPO Act 2012. 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 CBE, has undertaken this role from 1 April 2016. The DLAC Report is published annually alongside this 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. In 2016-17 we focused on strengthening our leadership, developing the skills and capability of our people and providing a more flexible work environment to enable a better work-life balance, as well as promoting diversity, inclusion and wellbeing.

The Digital Capability team was recognised as being instrumental in transforming the LAA and received the Skills Award at the 2016 Civil Service Awards. The team was focused on building awareness of new technology and ways of working, providing the right tools and growing digital expertise within the LAA.

Our people have benefited from a range of development programmes both within and outside the LAA. For more information on the Civil Service People Survey and diversity and inclusion, please see page 15.

## Our partners

As a key part of 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 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 at [www.gov.uk](http://www.gov.uk).

## Our reform programmes – The Spending Review 2015 Change Portfolio

**Completion of our legacy 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 2016-17 by three key reform programmes, each of which were completed in 2016:

- Integrated Delivery Programme – introduced to electronically manage Civil Representation. The CCMS grants legal aid, pays bills and recovers debt electronically. All civil applications are made online through the CCMS since it became mandatory on 1 April 2016.
- Legal Aid Transformation – introduced to deliver a range of policy reforms aimed at reducing the cost of legal aid, while ensuring public confidence in the justice system. Savings from the reforms are already being realised and are expected to achieve their full benefit by 2019-20.
- Crime Change Programme – intended to embrace digitisation whilst gaining a greater control of fund spend by providing the means for all crime providers to submit applications and bills online. This involved the creation of a national online application process and improvements to our existing IT systems.

**Stabilising our IT infrastructure** to ensure service stability by delivering the following projects:

- identity and access management enhancements that upgrade the existing online LAA portal to improve resilience and performance
- the CCMS enhancements for both internal and external users
- creating flexible, cloud-based development and test environments to support the development and maintenance of LAA's application.

**Reduce legal aid spend and the cost of administering legal aid** through the:

- Future Initiatives Project – a series of digital and existing IT system enhancements that will automate processes and increase operational efficiencies for legal aid casework
- Crown Court Fee Scheme Reform – a series of changes to simplify and reform fee schemes and implement changes to legal aid policy.

**Improve data sharing across the justice system**, increasing efficiency and improving customer service through delivery of the following projects:

- Justice Delivery Programme – working across the MoJ Justice Delivery Group, there has been greater collaboration and closer working principally between the LAA, CICA and OPG. This has been applied through a number of change initiatives that include sharing a document storage solution, piloting a concept of a shared contact centre and being a collective voice in wider change initiatives including the HMCTS Virtual Hearings
- CJS Common Platform – developing an interface with CJS partners (police, HMCTS and CPS) to provide an end-to-end service.

**Renewing and re-tendering business critical contracts**, including:

- civil and crime provider contracts
- application and support contracts for criminal legal aid eForms, supporting the CCMS development and test environments.



# Performance analysis

## Our year in focus

We have seen a number of improvements during our fourth year as an executive agency that have had a positive impact on the way we work as an organisation and in our interaction with providers. This was achieved whilst continuing to deliver strong performance against our objectives.

### Our Purpose Delivering legal aid efficiently and effectively as part of the justice system

#### Strategic Objective 1

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

Continue to develop our systems to enable us to work more digitally

Maintain our processes for paying bills and processing applications

Continue to have low error rates on both payments and eligibility decisions

#### Strategic Objective 2

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

Build capability to match the new digital ways of working

Develop our staff and improve levels of engagement

Continue making LAA a better place to work

#### Strategic Objective 3

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

Contribute to wider justice system aims




Continue to work positively with other government departments

Continue to work with providers to ensure provision of quality service

## Performance against our Strategic Objectives

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

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 Leadership Team (ELT), the LAA Board and the MoJ Executive Committee.

 <p>SO1</p>	 <p>SO2</p>	 <p>SO3</p>
<p>KPI: Financial Management KPI: Operational Delivery</p>	<p>KPI: People</p>	<p>KPI: Correspondence and Customer Service</p>
<p><b>Commitments</b></p> <ul style="list-style-type: none"> <li>• Maintain regularity of public funds through ensuring low error rates on payments to providers and eligibility assessments</li> <li>• Pay the majority of bills within a month and approve funding for all but the most complex cases in two weeks</li> <li>• Deliver a high quality PDS</li> <li>• Continue our work to digitise our services and automate our processing</li> <li>• Increase our debt collections</li> <li>• Ensure defensible and independent decision making</li> </ul>	<p><b>Commitments</b></p> <ul style="list-style-type: none"> <li>• Support the MoJ vision to be a smarter, simpler and more efficient department</li> <li>• Strengthen our leadership, develop our people and improve our workplace</li> <li>• Continue to improve wellbeing, finding the right work-life balance and providing a flexible working environment</li> <li>• Raise awareness and tackle issues of discrimination and inequality</li> </ul>	<p><b>Commitments</b></p> <ul style="list-style-type: none"> <li>• Work in partnership with providers to ensure effective contract management and that applications and bills are right the first time</li> <li>• Work in collaboration with colleagues across MoJ and other government departments to efficiently implement new policy</li> <li>• Provide efficient and high quality contact centres for the public, clients and providers</li> <li>• Ensure the effective award of new contracts for civil and criminal legal aid</li> <li>• Work closely with CICA and OPG to deliver efficiencies in middle and back office functions</li> </ul>



SO1

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



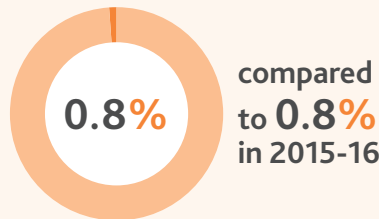
KPI: Financial Management

- Agency administration costs – delivers efficiencies and cost savings required to manage operations within the allocated administration budget
- Legal aid fund spend – monitors 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



We maintained strong financial stewardship in 2016-17, reduced administrative running costs, and remained within 1% of our Departmental Expenditure Limit (DEL) budget.

The net estimated error rate for 2016-17 is



For more information on LAA expenditure refer to the Financial Management Commentary and Financial Statements.



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 of moving towards a fully digital organisation

We improved our monthly performance for processing applications and paying bills, and remained within our target for processing civil and crime applications



98% of civil applications were processed within 20 working days (target 85%)

95% of criminal applications were processed in 2 working days (target 90%)

We paid 97% bills in a month (target over 90%)

Further progress has been made towards a fully digital organisation.



Only 8% of civil applications were rejected (below 15% target)



of our submitted applications and bills were completed online.



1

## Strategic Objective 1 is linked to the following commitments

### Key for commitments reporting



Achieved



Not achieved



Maintain regularity of public funds through ensuring low error rates on payments to providers and eligibility assessments



Pay the majority of bills within a month and approve funding for all but the most complex cases in two weeks



Deliver a high quality PDS



Continue our work to digitise our services and automate our processing



Increase our debt collections



Ensure defensible and independent decision making

We have continued to enhance controls and give a better customer service by making significant progress in digitising our services. In April 2016 we mand the use of the CCMS with all civil applications now going through the system. This year we saw the rollout of Crime Billing Online and a new digital service for billing crown court work, as well as the successful release of Representation Orders for criminal cases which are now being sent electronically and printed centrally for clients. This will improve the service for providers, clients and caseworkers over time.

The PDS has continued to provide high quality defence representation from our offices in Cheltenham, Darlington, Pontypridd and Swansea, and by our Advocacy Units based throughout England and Wales.

Debt recoveries were lower than last year at £61.0m (2015-16: £65.3m), mostly due to lower receipts from civil statutory charge debt. The cash collection strategy is being revised for 2017-18 to optimise recoveries and increase the emphasis on collecting older debts.



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

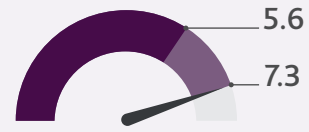


KPI: People

- Sick Absence – monitors and reduces the number of days lost through sickness



**5.6** average working days lost due to sickness of staff across LAA (compared to 6.9 for 2015-16)



Below the Civil Service benchmark of **7.3 days**

2

Strategic Objective 2 is linked to the following commitments



Support the MoJ vision to be a smarter, simpler and more efficient department



Strengthen our leadership, develop our people and improve our workplace



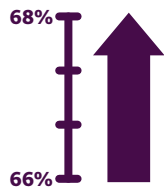
Continue to improve wellbeing, finding the right work-life balance and providing a flexible working environment



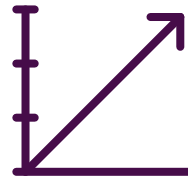
Raise awareness and tackle issues of discrimination and inequality

## The LAA is proud of the outcomes in the 2016-17 Civil Service People Survey:

An increase in the overall engagement index from 66% to **68%**



The LAA moved from 14th to **11th** position across all of the Civil Service



A high level of participation, with **83%** of staff providing their views



The LAA are in the top 10 (of 98 Civil Service organisations that participated) for **six out of nine** categories



Improved scores across **all nine** survey categories



The LAA values equality, diversity and inclusion in both the delivery of legal aid and in our workplace. We are committed to contributing to the inclusion goals of the MoJ and Civil Service and embedding the public sector equality duty in the design and delivery of legal aid services.

We moved from 3rd to 2nd place overall in the Civil Service People Survey for the fairness and inclusion category. New initiatives that helped achieve this were the introduction of diversity objectives for all staff, the establishment of a Gender Equality Project and an Age Equality Workplace Forum, collaboration with MoJ's Project Race, promotion of positive action opportunities for staff from underrepresented groups (including women, staff with a disability, lesbian, gay, bisexual, transgender, black and minority ethnic staff), disability awareness training and promotion of the MoJ 'Challenge It, Change It' anti-bullying and harassment campaign.

Our senior management teams are committed to ensuring the wellbeing of our staff. We have set up a group of wellbeing champions across all of our offices in England and Wales, who organise and run local events that include awareness ranging from healthy eating to exercise and mental health. In addition, at a corporate level, the LAA has a robust health and safety regime that supports staff wellbeing, including national awareness raising on musculoskeletal disease through annual Display Screen Assessments that look to include reasonable adjustments where appropriate. The LAA has tested its own wellbeing approach against the Bronze Corporate Health Standard and has been accredited as being compliant with all of the areas measured.

To strengthen the leadership of the LAA, the Leadership Potential Programme was created as a development opportunity which gave 25 successful candidates the chance to gain support, training and opportunities to develop their skills and prepare them for a possible promotion. The programme was developed and run by members of previous LAA leadership schemes.

This year has seen the number of staff with an Operational Delivery Profession Qualification rise by 54 to 113. The programme is still growing, with three cohorts a year signing up to begin or expand their studies. The Foundation Skills Programme has also launched this year. We currently have 78 colleagues progressing through this, learning through webinars, e-Learning and submission of portfolios. The Future Development Pathway has 57 staff members committed to building capability and training in four core skills: Leadership and Management, Project Delivery, Operational Policy and Contract Management.



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



KPI: Correspondence and Customer Service

- Monitor our customer service response to queries, correspondence and complaints, including FOI and DPA requests
- Monitor the service we provide via the Civil Certificated Helpline, measuring how quickly we answer calls and deliver customer satisfaction

In 2016-17

**96%**  
 (2015-16: 93%)  
 of FOI requests were  
 answered in **20 days**  
 (target 90%)

**98%**  
 (2015-16: 91%)  
 of DPA requests  
 were answered in  
**40 days** (target 90%)



We sustained our complaint handling and Members of Parliament correspondence



dealt within **20 days**

(target 90%)



The Civil Certificated Contact centre has once again achieved a high level of performance.

Calls were answered within an average of



(2015-16: 2:48 minutes)  
(target 2:10 - 2:50 minutes)

The number of abandoned calls fell to **5.6%**

(2015-16: 6.8%)  
(target less than 12%)

## 3

**Strategic Objective 3 is linked to the following commitments**

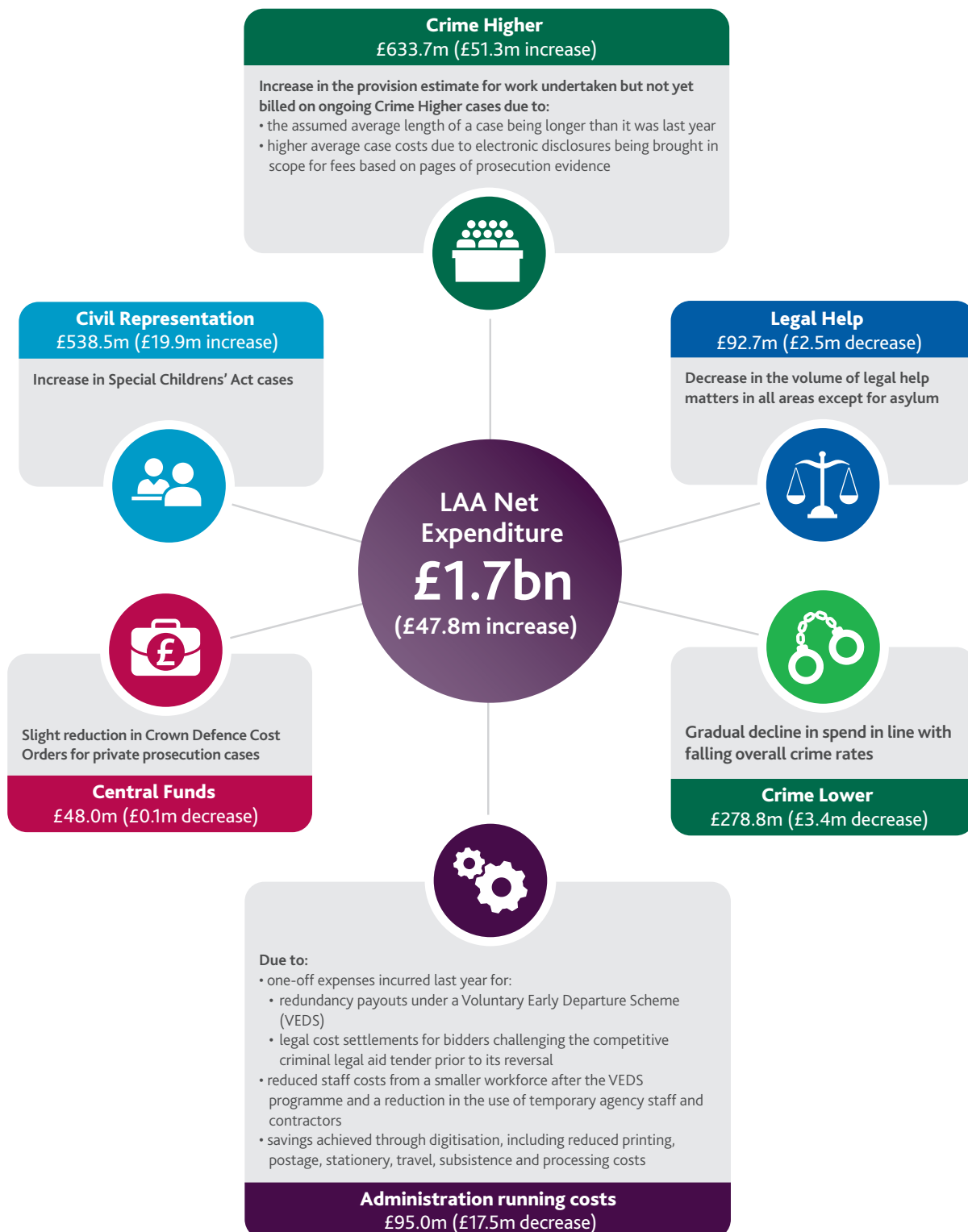
- ✓ Work in partnership with providers to ensure effective contract management and that applications and bills are right the first time
- ✓ Work in collaboration with colleagues across MoJ and other government departments to efficiently implement new policy
- ✓ Provide efficient and high quality contact centres for the public, clients and providers
- ✓ Ensure the effective award of new contracts for civil and criminal legal aid
- ✓ Work closely with CICA and OPG to deliver efficiencies in middle and back office functions

The LAA Contract Management team had an audit programme that ensured each provider was visited and audited at least once in 2016-17 to check that their activities were compliant with the terms of the legal aid contract. The Contract Management team worked closely with providers to reduce the recurrence of identified errors. The effectiveness of this showed in the reduced level of civil bills that were rejected due to provider error.

Work is underway to simplify the administration of legal aid by working collaboratively with providers, other parts of the MoJ and the wider justice sector. Whilst we have made good progress in recent years through the introduction of digital tools and process improvements, we continue to develop and plan further enhancements. Further detail on our reform programmes can be found on page 8.

# 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 58 to 91. Note 2 to the Financial Statements on page 74 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 in legal aid spend by scheme, comparing 2016-17 to 2015-16.



## Significant items in 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. If the client has insufficient disposable assets to repay the legal aid, the LAA gains security over the debt by registering a formal charge over the relevant asset. The Lord Chancellor is entitled to defer enforcement of this charge and to accrue interest against this debt at 8% simple interest until such time that the claimant is able to repay the debt. The debt will either be recovered when the asset is sold, or before if the client has the means to repay sooner. Clients are encouraged to repay the debt as soon as they are able to minimise interest charges.

The receivables balance is also 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.



## Sustainability report

The LAA, through MoJ, is a partner of the Joint Estates Cluster on sustainability. We are committed to creating a sustainable, effective and efficient estate which provides value for money for the taxpayer, reduces our environmental impact and enables transformation to the way civil servants work and contribute to the growth agenda.

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, highlighting 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 operate more sustainably.

We have continued to transform legal aid and have moved more of our work online. The benefits of working in a digital and cloud era progresses our service delivery from a paper based operation towards a paperless organisation. For civil legal aid, the CCMS was made mandatory from 1 April 2016 for the online submission of civil legal aid applications and bills. For criminal legal aid applications, eForms were implemented to enable providers to submit their applications online from 4 July 2016. Over 90% of applications and bills are now completed online, and we continue our work on digital transformation.

We have had the full year benefit of the Workplace Transformation initiative, which provided the tools and technology for more flexible working. Furthermore, we have continued to focus on reducing business critical travel. These two initiatives, combined with a smaller workforce following VEDS departures, have reduced business travel internally between our offices and externally with service providers by 2,871,000km (55%) compared to 2014-15.

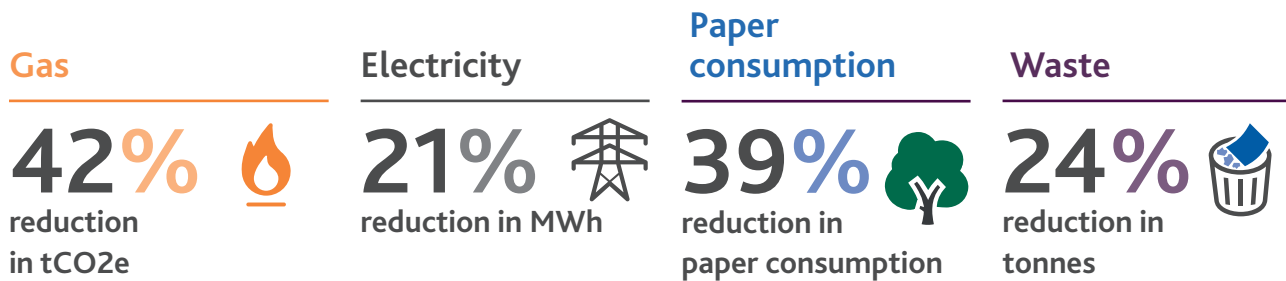
Our flexible work environment supports a better work-life balance for our people and promotes diversity, whilst also reducing our environmental impact. It has enabled us to reduce the office space we occupy, contributing to a decrease in our emissions. There is also a reduction in commuter travel when staff work from home, which is not captured or quantified in this report.



Green Champions have been established to help raise sustainability awareness and improve working practice behaviour in our offices. These include Go Green initiatives aimed to reduce paper printing, waste management and minimise electricity and gas usage.

### Environmental sustainability measure reporting

Since 2015-16



### Greenhouse Gas (GHG) emission

Energy	2016-17	2015-16 <sup>1</sup>	2014-15 <sup>1</sup>
Non-financial indicators (Tonnes of CO <sub>2</sub> equivalent (tCO <sub>2</sub> e))			
Gas - Scope 1 non-renewable energy <sup>2</sup>	103	177	157
Electricity - Scope 2 non-renewable energy <sup>2</sup>	609	773	707
Electricity - Scope 2 renewable energy <sup>2</sup>	182	231	211
Official business travel emission – Scope 3	132	213	270
<b>Total</b>	<b>1,026</b>	<b>1,394</b>	<b>1,345</b>
Non-financial indicators (Megawatt hour MWh)			
Gas - Scope 1 non-renewable energy <sup>2</sup>	560	959	853
Electricity - Scope 2 non-renewable energy <sup>2</sup>	1,356	1,720	1,574
Electricity - Scope 2 renewable energy <sup>2</sup>	405	514	470
<b>Total</b>	<b>2,321</b>	<b>3,193</b>	<b>2,897</b>
Financial indicators (£000)			
Gross expenditure on energy <sup>2</sup>	267	350	319
Expenditure on official business travel	502	896	1,459
<b>Total</b>	<b>769</b>	<b>1,246</b>	<b>1,778</b>

1 The comparative years' results have been updated to reflect the current output conversion multiplier.

2 Available information reported for: Cambridge, Bristol, Nottingham, Leeds, Newcastle, Darlington, Pontypridd, Swansea, Birmingham, Cheltenham, Manchester, Brighton, Chester and Cardiff.

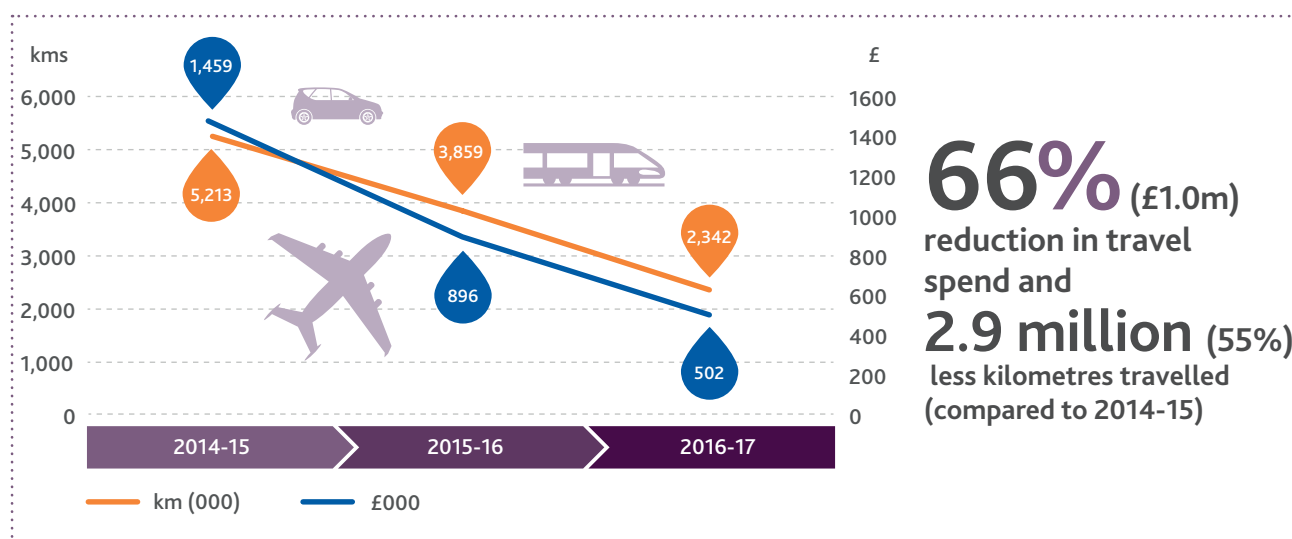
Overall, energy consumption and GHG emissions from purchased electricity and gas for heating have decreased compared to last year. These are largely attributed to our regional sites having significantly reduced headcount through the Voluntary Early Departure Scheme during the year. In addition, our Cambridge and Bristol offices have entered into new accommodation arrangements during the year and the utilities consumption and cost will now be reported through shared occupancy.

The increase from 2014-15 to 2015-16 throughout this report is the full year impact of the HMCTS Criminal Applications Team and National Taxing Team transferring to LAA. There was also an increase in gas prices of 10% between 2014-15 and 2015-16.

## Travel

Travel		2016-17	2015-16 <sup>1</sup>	2014-15 <sup>1</sup>
Output information (km 000)	Motor vehicle	366	513	561
	Rail	1,912	3,193	4,415
	Flight	64	153	237
	<b>Total</b>	<b>2,342</b>	<b>3,859</b>	<b>5,213</b>
Output information (tCO2e)	Motor vehicle	68	96	105
	Rail	54	92	127
	Flight	10	25	38
	<b>Total</b>	<b>132</b>	<b>213</b>	<b>270</b>

1 The comparative years' results have been updated to reflect the current output conversion multiplier.



After the implementation of the Workplace Transformation initiative in 2015-16, we have better utilised video teleconference and instant messaging systems, reducing the need to travel. We will continue this focus going forward to keep travel spend and output emissions to a minimum.

## Finite resource consumption

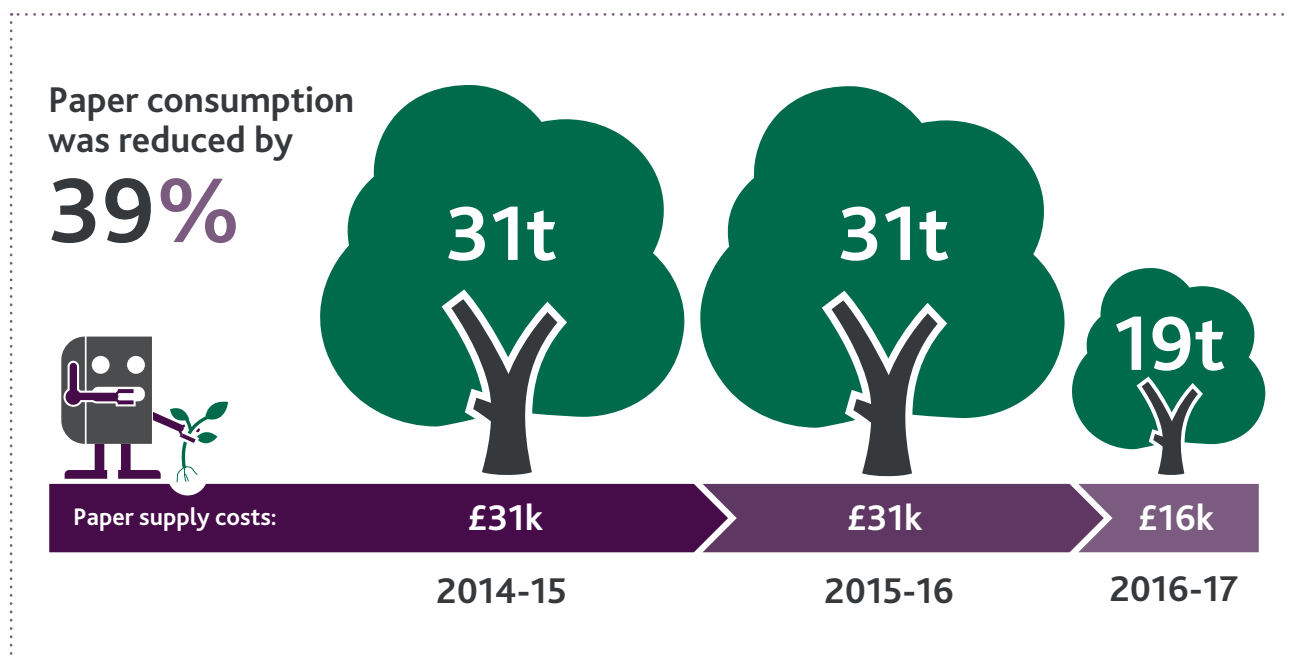
Water <sup>2</sup>		2016-17	2015-16 <sup>1</sup>	2014-15 <sup>1</sup>
Non-financial information (cubic metres)	Water consumption	10,494	13,102	9,634
Financial information (£000)	Water supply costs	16	20	14

1 The comparative years' results have been updated to reflect the current output conversion multiplier.

2 Available information reported for: Nottingham, Newcastle, Darlington, Pontypridd and Cheltenham.

Our consumption and cost of water have decreased compared to last year. This is in line with our energy consumption, largely attributed to a reduced workforce following VEDS departures and the increase in flexible working.

## Paper<sup>1</sup>



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

Our consumption and cost of paper between years has significantly reduced. This is the positive effect of becoming a more digital and paperless organisation. We procure 100% recovered waste paper for our in-office printing and external publications are printed on at least 75% recycled paper.

## Waste minimisation and management

Waste <sup>2</sup>		2016-17	2015-16 <sup>1</sup>	2014-15 <sup>1</sup>
Non-financial information (tonnes)	Waste sent to landfill	220	255	221
	Waste recycled/reused	58	110	98
	Total	278	365	319
Financial information (£000)	Waste sent to landfill	32	37	32
	Waste recycled/reused	5	9	8
	Total	37	46	40

1 The comparative years' results have been updated to reflect the current output conversion multiplier.

2 Available information reported for: Cambridge, Nottingham, Leeds, Newcastle, Darlington, Pontypridd, Swansea, Birmingham, Cheltenham, Brighton and London.

The fall in waste sent to landfill relates to our continued drive towards waste minimisation and management. 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 also reflects the positive connection of going digital and the significant reduction of paper waste.

## Going forward

This is the fourth 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.

Our sustainability strategy is to continue operating 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, further reduce water consumption, and buy more sustainable and efficient products and services with the aim of minimising the long term environmental impact.

Our Sustainability Development team and Facilities Management continue to find ways for us to reduce our carbon footprint through facilities upgrades. Some planned improvements include switching to LED lights, upgrading hand-dryers, installing central heating, and overhauling of boilers and mains wiring to achieve energy efficiency and waste minimisation.

We will continue to reduce our environmental impact through the ongoing digital transformation work, commitment to flexible working arrangements, sustainable procurement and the use of alternative communication options to keep business travel to a minimum.



## Our plans for the future

### Our 2017-18 Strategic Objectives

#### Working with others to achieve excellence in the delivery of legal aid we will:

Provide simple, timely and reliable access to legal aid

Build strong relationships across government and the justice system

Secure value for money for the taxpayer in all that we do

Achieve our full potential through being fair, proud and supportive

We will continue to deliver our business critical services

As an agency we will continue to improve efficiency, automate and simplify

Our relationships with legal aid providers are central to the work of the LAA

As part of the MoJ Group, the LAA will play its part in the MoJ strategy. We will continue to deliver legal aid effectively and efficiently for those whose life and liberty is at stake, where they face the loss of their home, in domestic violence cases, and where their children may be taken into care.

#### MoJ strategic objectives



1 A prison and probation service that reforms offenders



2 A modern courts and justice system



3 A Global Britain that promotes the rule of law



4 A transformed department

For further details on our plans for the future please see our 2017-18 Business Plan which can be found at [www.gov.uk](http://www.gov.uk)

#### Shaun McNally CBE

Chief Executive and Accounting Officer

Legal Aid Agency

11 July 2017



# Accountability report



# Corporate governance report

## Introduction

Our Framework Document sets out the arrangements for governance, accountability, financing, staffing and operation and can be viewed in full at [www.gov.uk/government/organisations/legal-aid-agency/about/our-governance#laa-board](http://www.gov.uk/government/organisations/legal-aid-agency/about/our-governance#laa-board)

As Chief Executive and Accounting Officer (AO) 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 AO. As AO, 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 for 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 the Accounting Officer's responsibilities
- Governance statement

## Directors' report

The composition of the LAA Board, the Audit and Risk Assurance Committee (ARAC) and the ELT is detailed on page 34. Together 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 previously undisclosed conflicts of interest before the start of each meeting. There have been no additional declarations made during 2016-17.

### 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 30 considers further information assurance and data security practices in the LAA.



## 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 2016-17 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 Legal Aid Agency'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 Legal Aid Agency'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 Ministry of Justice 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



### Introduction

This statement covers my first year as Chief Executive and AO for the LAA. I am responsible for maintaining a robust system of internal control that supports the achievement of the LAA's policies, aims and objectives, while safeguarding public funds and departmental assets. This is in accordance with the responsibilities assigned to me in HM Treasury's publication *Managing Public Money*.

Additionally, I have undertaken the role of DLAC, which is designated to me by the Lord Chancellor. As DLAC I am supported by the LAA's Board and my Central Legal Team in ensuring that robust practices are in place to maintain an independent decision-making process for granting legal aid. My DLAC Annual Report provides a summary of decisions made, the work carried out on my behalf and the processes followed.

## Relationship with Parliament

The LAA is subject to scrutiny from Parliament. This includes the Public Accounts Committee (PAC), the Justice Committee and the Parliamentary and Health Service Ombudsman (PHSO). The PAC published its report on efficiency in the CJS in May 2016. The report highlighted areas where the CJS is under stress, including the impact of the reduction in legal aid spending. The MoJ and the LAA as an integral part of the department, has continued to work across the CJS to share best practice and identify and implement efficiencies that improve the service we provide to our users.

## Parliamentary and Health Service Ombudsman

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. Where appropriate the LAA will engage directly with the PHSO liaison officer to:

- discuss progress on individual cases
- provide updates on changes: for example, policy changes and potential impacts for the PHSO
- ensure two-way sharing of best practice and constructive feedback.

The LAA has regular meetings with a MoJ-wide complaints forum as the themes and working relationships are similar. This provides an opportunity to work collaboratively to continually improve our complaints handling service.

During 2016-17, the PHSO received 12 new complaints referrals. Out of these, six were accepted for a formal investigation. The PHSO reached conclusions on two ongoing cases in this year (case conclusions can span multiple years and there is no direct correlation to complaints raised or concluded each financial year). Of the concluded cases none were upheld in full, one was upheld in part and one was not upheld. Of the three recommendations made, all have been complied with. 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.

## Governance framework

On my appointment as Chief Executive on 1 April 2016, I initiated an assessment of our governance arrangements to ensure they supported the new shape of the organisation in light of the following:

- completion of our three year transformation programme, changing the provision of legal aid specified by the LASPO Act 2012
- successful delivery of a Voluntary Early Departure Scheme (VEDS) in August 2016 that saw a reduction in our workforce of 207 staff
- a planned transition to a functional leadership model in MoJ to improve governance, alignment, capacity and capability of our digital, finance and communication services.

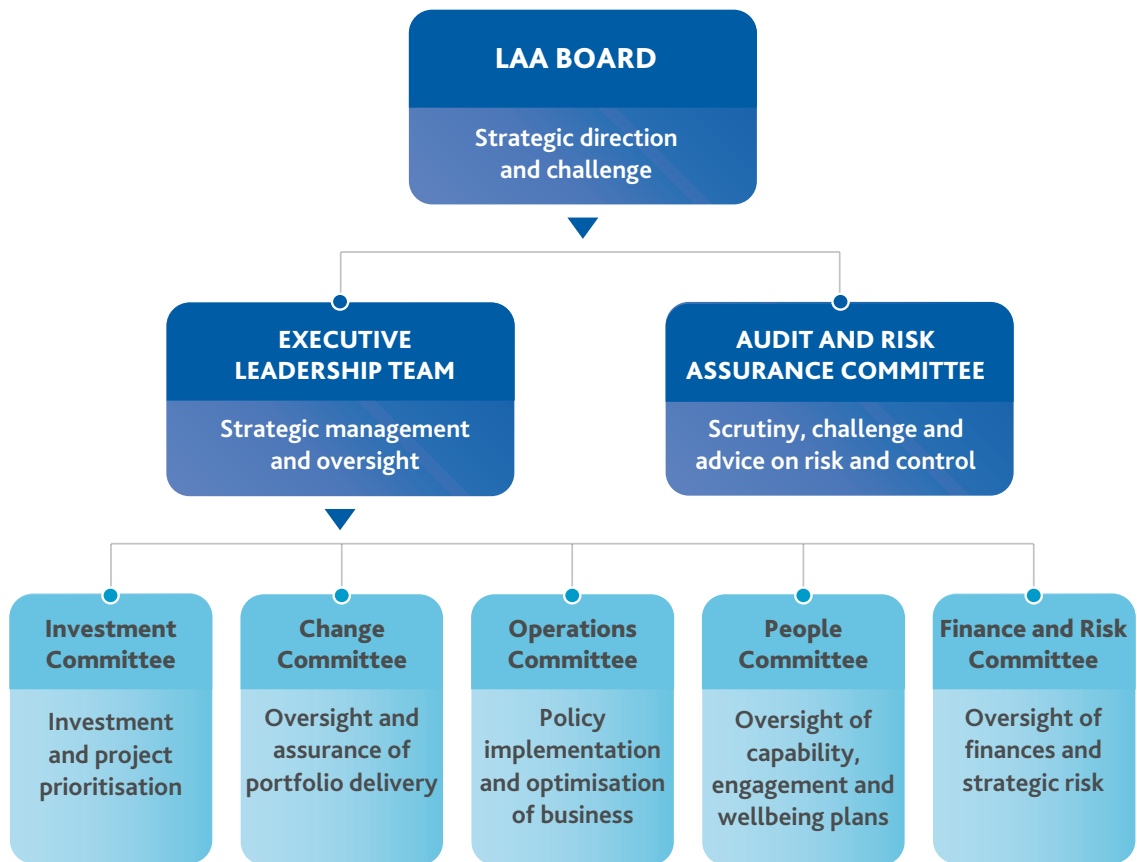
The options for new arrangements were deliberated with my Senior Management team and agreed by the LAA Board. The new governance structure is detailed on page 33 and was established with the commitment to streamline our governance while enabling adequate oversight and control of the LAA's delivery priorities. This was developed in line with the principles of the HM Treasury best practice guide – Corporate Governance in central government departments: Code of Good Practice (the Code), to the extent it applies to an executive agency.

The one exception to the Code is that LAA do not have a dedicated Nomination and Governance Committee for overseeing talent management, succession planning, incentive schemes and governance structures. These responsibilities are covered by the remit of the LAA Board, its ELT and the People Committee.

We completed a review of the new governance structure once it had been embedded in the organisation and found that the new structures are working as intended, providing strong support to myself as AO and the wider ELT in discharging our responsibilities. The review focused on the committees' effectiveness, interaction, behaviours, communication and decision making. Overall, we concluded the governance arrangements have strengthened the organisation's control framework, demonstrated through continued strong delivery performance, the management of change across the LAA's portfolio, the increased staff engagement score and an increasingly effective process of risk management despite a significant workforce reduction through VEDS.

Our Framework Document is being refreshed to reflect our new governance structure, the changes to how MoJ will provide professional services to the LAA under functional leadership, and to align with HM Treasury's preferred layout in Managing Public Money.

## Governance structure



## Committee membership and attendance during 2016-17

COMPOSITION	GENDER	LAA BOARD		ELT		ARAC	
		Member	Invitee	Member	Invitee	Member	Invitee
<b>Members</b>	M/F						
<b>EXECUTIVE BOARD</b>							
Matthew Coats CB, MoJ Chief Operating Officer (Left 26.01.17) <sup>1</sup>	M	Chair (until 26.01.17) 9 of 9					<input checked="" type="checkbox"/>
Shaun McNally CBE, Chief Executive	M	Chair (from 27.01.17) 11 of 11		Chair			<input checked="" type="checkbox"/>
Hugh Barrett, Director of Commissioning and Strategy (Left 16.09.16)	M	5 of 5					
James McEwen, Director of Finance and Digital (Appointed 01.04.16)	M	10 of 11		<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>
Ruth Wayte, Principal Legal Advisor to the LAA	F	11 of 11		<input checked="" type="checkbox"/>			
Adrian Hannell, Deputy Director of Finance (Appointed 29.09.16)	M	4 of 6		<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>
Jane Harbottle, Head of Civil Case Management (Appointed 29.09.16)	F	5 of 6		<input checked="" type="checkbox"/>			
Clare Toogood, Deputy Director Public Defenders Service (Appointed 29.09.16 - 26.01.17)	F	2 of 4		<input checked="" type="checkbox"/>			
Sally Jones, Deputy Director, Head of Corporate Centre (Appointed 27.01.17)	F	2 of 2		<input checked="" type="checkbox"/>			
Daniel Flury, Head of Crime Case Management (Appointed 29.09.16 – 10.03.17)	M	4 of 5		<input checked="" type="checkbox"/>			
David Thomas, Deputy Director of Assurance (Appointed 11.03.17)	M	1 of 1		<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>
<b>NON-EXECUTIVE BOARD MEMBERS</b>							
John Grosvenor (Finance)	M	8 of 11				Chair 4 of 4	
Andrew Lockley (Legal)	M	10 of 11				4 of 4	
Eric Gregory (Commercial)	M	10 of 11				4 of 4	
<b>OTHER</b>							
Head of Planning, Performance and Change	F			<input checked="" type="checkbox"/>			
Head of High Cost Civil Complex Cases	M			<input checked="" type="checkbox"/>			
Head of Service Development and Commissioning	F			<input checked="" type="checkbox"/>			
MoJ HR Director	F		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			
Deputy Director of Digital	M		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			
Head of Contract Management	M			<input checked="" type="checkbox"/>			
MoJ Chief Financial Officer	M		<input checked="" type="checkbox"/>				
MoJ Director for Legal Aid Policy	F		<input checked="" type="checkbox"/>				

<sup>1</sup> Shaun McNally CBE was appointed Chair of the Board on 27 January 2017, marking the final transition from the previous LAA Chief Executive, Matthew Coats.

## Committee roles and responsibilities

### Legal Aid Agency Board

The LAA Board supports me as AO and my other senior officials in directing the business of the LAA. The Board is ultimately responsible for providing advice on the governance and strategic direction of the LAA. Some responsibilities of the Board are delegated to its committees as set out on page 36.

The composition of the Board was changed as a result of the new governance structure. Membership now includes the Chairs of ELT's five new committees (Investment, Change, Finance and Risk, Operations and People). I was appointed Chair of the Board on 27 January 2017, marking the final transition from the previous LAA Chief Executive, Matthew Coats, to myself.

There were 11 meetings of the Board, including two strategy days during 2016-17, the focus of which were long-term financial planning, horizon scanning and technology. During the year the Board has reviewed key aspects of LAA's performance and change programmes, focusing on achievements, risks and improvement actions. In considering its own effectiveness, the Board agreed its strategy days have been key to consolidating the outcome of its self-assessment survey. We have progressed a number of improvement actions, including increased digital working and increased visibility of Board members across the LAA's offices in England and Wales.

### Audit and Risk Assurance Committee

The ARAC advises the Board collectively on issues of risk, control and governance, using its professional expertise in financial, legal and commercial matters to challenge and support the LAA. The committee is made up of three NEBMs, who are also members of the LAA Board. They do not have any executive responsibilities.

The ARAC maintained strong oversight and challenge of the LAA's financial statements, error rate, data security and business continuity arrangements, receiving assurance reports from management and internal and external audit.

They continued to hold a key role in providing oversight, scrutiny, direction and support over the LAA's investigation into concerns about one provider's claims for mental health work. The case was referred to the Metropolitan Police in October 2015 and the civil and criminal investigation into this matter continues. Our initial internal review confirmed that the alleged provider fraud was an exceptional occurrence and did not reflect a wider, systemic issue. Further confidence over our processes was sought through an external review, undertaken by PwC, which investigated how the LAA manages provider risk. As a result a number of management recommendations were made, accepted and implemented across the LAA.

## Executive Leadership Team

The ELT is the senior committee and has overall management responsibility for the LAA. ELT take decisions on the strategy for, and management of, the LAA, including the future capability and capacity of the LAA to meet departmental and government reform plans, and the strategic management of the corporate level risks.

ELT maintains the high-level oversight of the operational running of the LAA and is supported in its responsibilities by five committees, created to facilitate deeper, focused discussions on specific issues as well as the completion of tasks delegated from ELT.

- **Operations Committee:** To take decisions on implementing policy proposals and on the optimisation of business processes to deliver legal aid efficiently and effectively – including the interface with providers. It will review and challenge performance not limited to external KPIs and oversee the management of operational risks.
- **Finance and Risk Committee:** To support the ELT in its oversight responsibilities by focusing on financial and risk management processes within the LAA. It is an advisory and challenge body that will support the Board, ELT, the ARAC and the business in its management of risk.
- **People Committee:** To provide constructive business-focused input, decision making and assurance that the LAA is delivering on its people strategy, capability and wellbeing plans.
- **Investment Committee:** To scrutinise and approve business cases including the allocation of funds.
- **Change Committee:** To effectively assure the LAA's change portfolio to deliver maximum benefit to the organisation and its people.

## Internal control framework

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. Based on the LAA's assurance framework I am reasonably assured of the effectiveness of the system of internal control.

As explained in our operating model above, I am assisted in the stewardship of the LAA's resources and management of its risks by the Board, my ELT and Committee Chairs. I receive written assurance from my Deputy Directors on the effectiveness of risk management and control in the form of annual assurance declarations. In addition, MoJ provides us with a common platform of digital, financial, and HR systems, policies and expertise that are applied where relevant. I also receive an internal audit service from the Government Internal Audit Agency, which provides me with independent assurance over the effectiveness of my organisation's governance, risk management and control environment.



## Head of Internal Audit Opinion

Of the audits completed, three have been rated as limited with the remaining audits rated moderate or substantial. The Head of Internal Audit has made a number of recommendations throughout the year, but did not identify any critical recommendations. He has made 12 significant and 56 moderate recommendations across the areas audited. Where he made significant recommendations, these were specific to the systems audited and there was no pattern of control weakness. The Head of Internal Audit is satisfied that where recommendations have been made, management have committed to take appropriate action. Management action is also regularly monitored and reported by LAA Assurance.

On the basis of the work completed to date and the Head of Internal Audit's knowledge of the governance, internal control and risk management frameworks within the LAA, he has provided a moderate level of assurance.

## Assessment of significant risks and issues

As an organisation we have continued to manage ongoing and inherent risks to the delivery of our key objective, which is to provide civil and criminal legal aid and advice in England and Wales. Our focus continues to be on working alongside our providers of legal aid to maintain stability in the market by: responding to legal challenges to the funding decisions we make; managing our reliance on MoJ's IT infrastructure and LAA legacy systems; reduction in headcount; and reducing the likelihood of fraud and error arising in the legal aid fund. The following steps have been taken to manage these areas throughout the year.

## Shared Services and the introduction of the Single Operating Platform

The LAA migrated from the Phoenix platform to the new cross government Single Operating Platform (SOP) in January 2017 along with other bodies in the MoJ Group. This system is only used for LAA's running costs, not for legal aid fund expenditure, so represents a small proportion of spend reflected in this Annual Report and Accounts.

As with any system migration there have been issues impacting human resources and finance operations that are being urgently resolved with the Shared Service provider. Additional assurance procedures and control assessment work has been implemented as part of the production of the financial statements, which will form the focus for controls and systems optimisation in the coming financial year.

## Market stability

In my 2015-16 statement I reported on our extension of the current crime contracts to maintain market stability. The Crime Tender project was established in April 2016 to ensure the continued provision of criminal legal aid services through the introduction of a 2017 Standard Crime Contract that took effect on 1 April 2017. This involved the delivery of a short consultation with representative bodies on the content of the proposed contract in early June 2016, before the opening of a non-competitive tender in July 2016. The LAA received bids from over 1,400 organisations, the majority of whom were successful in securing a contract in at least one area of work. Since the outcomes of the tender process were announced in November 2016 we have been working with providers to ensure that the information provided in their tenders has been verified and to mobilise them in readiness to operate under the new contract. The 2017 contract is substantively based on the 2010 Standard Crime Contract, and accordingly the key principles include:

- a single contract that covers own client and duty work
- maintaining current duty solicitor areas
- not making duty work mandatory.

However the contract has been updated where appropriate to reflect current legislation. It also addresses the issue of duty solicitors being awarded slots they are not entitled to, clarifies supervisor requirements and creates a cohesive set of provisions that reflect changes to the delivery of duty work since these provisions were originally drafted.

## IT Services

Over 90% of our submitted applications and bills are now completed and processed online. Therefore, IT disruptions can have a significant impact on the submission and processing of applications and payments for legal aid, staff morale, service to the public and stakeholder relationships. Our dedicated incident management and live service support teams continue to work on our service continuity processes to minimise impact and work through any disruption with our service providers. We have manual contingency processes to ensure we can prioritise emergency cases during these periods of disruption. We have improved our proactive monitoring of our applications to ensure that any issues can be detected and remedied as quickly as possible.

We have also continued to remedy system weaknesses, conducted upgrades and applied critical patches; generating further improvements in our system stability and user satisfaction. The number of high priority IT incidents in LAA systems is now in the low single digits per month. However, more needs to be done to the infrastructure which continues to cause problems. Our strategic hosting will address many of these weaknesses and ensure systems are resilient, provide high availability and perform well.

## Voluntary Early Departure Scheme

Having already reduced workload by successfully delivering reforms under the Legal Aid Transformation Programme, becoming more digital and moving processes online we were able to change the shape of the organisation to match this increasingly automated way of working. The efficiency savings this created allowed us to release staff. We developed the VEDS to allow staff to exit the organisation voluntarily. A transparent eligibility criteria was developed to ensure we retained our best performing and business critical employees. This was agreed by the ELT and the Departmental Trade Unions.

The scheme was run according to Cabinet Office and My Civil Service Pension guidelines. A detailed transition plan was developed in conjunction with Deputy Directors covering all teams within the LAA. The programme has concluded successfully with 207 employees departing, while our performance and delivery targets continue to be maintained. The administrative savings we have achieved have helped the LAA meet its efficiency targets required as part of the 2015 Spending Review.

## Error rate

The complexity of legal aid means there is an inherent risk of error as a result of incorrect assessments, or inaccurate payments, which is continually scrutinised and managed as part of our stewardship arrangements. Our application and payment processes are subject to ongoing policy and administrative changes. We continue to focus on reducing error in a stable and sustainable way by working closely with our providers, and collaborating across our contract management, case management, finance and digital teams 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 issues to highlight this year:

- increased error on Crime Higher assessments due to the difficulty validating electronically submitted Pages of Prosecution Evidence. We have released new guidance for validating this material and fed into a redesign of the fee scheme that eradicates the issue
- errors in Civil Representation billing, which we are addressing through close scrutiny of bills assessed by the Courts, control improvements on High Cost Cases and provider education
- the level of Crime Lower error has reduced in 2016-17. Mitigations include increased auditing and provider training
- we continue to have zero net error in Legal Help accuracy work.

Our estimated gross error was £18.3m (2015-16: £19.0m). We have continued our focus on recovering overpayments of legal aid, which has helped reduce the most likely level of error to a net position of £12.9m or 0.8% of expenditure (2015-16: £12.9m or 0.8% of expenditure). Based on the statistical sampling techniques used, we have 95% confidence that the actual level of error is between 0.5% and 1.1% of legal aid spend.

## Fraud

The most significant counter fraud activities receive active attention from the Board and the 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.

As part of the MoJ Counter Fraud and Development Group, we participate in the National Fraud Initiative and work closely with Cabinet Office on a range of fraud detection and prevention measures. We continue to foster close working relationships with the Department of Work and Pensions, Solicitors Regulation Authority, HM 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 Crown Prosecution Service to ensure national file standards and practice are followed.



## 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. During the year our Communications team publicised whistleblowing awareness and how to raise any concerns on LAA TV, which reaches across all our offices. There have been no reported whistle blowers using this route.

## Information assurance and data security

The LAA transacts on high volumes of personal data belonging to its clients every day. We therefore take information security very seriously and direct our people to complete mandatory training on their responsibilities for handling information. All incidents are investigated 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.

In 2016-17, there were 248 personal data related incidents reported and investigated in line with our agreed reporting procedures and none were considered reportable to the Information Commissioner's Office.



CATEGORY	NATURE OF INCIDENT	2016-17	2015-16
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises	79	99
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises	25	29
III	Insecure disposal of inadequately protected electronic equipment, devices or paper	0	0
IV	Unauthorised disclosure	131	230
V	Other (policy non-compliance)	13	0
Total incidents recorded		248	358

## 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 and continues to be a supportive and innovative place to work as reflected in our Civil Service People Survey results.

Signed for and on behalf of the Legal Aid Agency

### Shaun McNally CBE

Chief Executive and Accounting Officer  
Legal Aid Agency  
11 July 2017

## Remuneration and staff report

This chapter summarises the LAA's policy on remuneration of Executive Board Members and NEBMs and staff. It also provides detail 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 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 HM Prison and Probation Service (HMPPS), 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 audited by the external auditor, the Comptroller & Auditor General, appointed under the Government Resources and Accounts Act 2000.

# Remuneration policy

## Executive Board Members

### Service contracts

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

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

Further information about the work of the Civil Service Commission can be found at [www.civilservicecommission.org.uk](http://www.civilservicecommission.org.uk)

### Performance process

SCS follow the Cabinet Office guidelines that incorporate the SCS Performance Management Framework. There were two 'formal' Performance Management Review (PMR) discussions in the year and then regular one-to-one meetings to monitor progress and ensure that all objectives were still relevant. The performance measures for each member of the Executive Board Members have been met.

### Total amount of salary and fees

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

### All taxable benefits

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

Benefits recognised relate to travel and subsistence. The benefits in kind stated for Executives and NEBMs are estimates, the final values are to be agreed between the LAA and HMRC, and are paid using a PAYE 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 2016-17 relate to the performance in 2015-16 and the bonuses reported in 2015-16 relate to the performance in 2014-15.

## All pension related benefits

Section 229 of the Finance Act 2004 determines the maximum annual level of pension savings that can be accrued under a defined benefit arrangement before any taxation is charged. The amount of savings shown in Table 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 2016) and the value of the individual's benefits at the end of the pension input period (31 March 2017); 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.

## Non-Executive Board Members

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; during 2015-16 all NEBMs received three year contract extensions.

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 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 NEBM service terms, benefits and remuneration are included in Tables E and F.



Table A: Senior employees in post at 31 March 2017 – Employment costs

Executive Board Members	2016-17					2015-16				
	Total amount of salary and fees	All taxable benefits (to nearest £100)	Bonus Payments	Pension related benefits (to nearest £1000)	Total (to nearest £1000)	Total amount of salary and fees	All taxable benefits (to nearest £100)	Bonus Payments	Pension related benefits (to nearest £1000)	Total (to nearest £1000)
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Matthew Coats CB<sup>1</sup></b> Chair of LAA Board (Until 26.01.17)	-	-	-	-	-	140-145	-	-	77	220-225
<b>Shaun McNally CBE</b> Chief Executive Chair of LAA Board (From 27.01.17)	90-95	41.7 <sup>2 10</sup>	10-15	74	220-225	90-95	42.9	10-15	36	180-185
<b>Hugh Barrett<sup>3</sup></b> Director of Commissioning and Strategy (Left 16.09.16)	70-75 (140-145 FYE)	-	-	44	110-115	140-145	-	-	40	180-185
<b>James McEwen</b> Director of Finance and Digital (from 1.04.16)	85-90	-	-	147 <sup>9</sup>	230-235	n/a	n/a	n/a	n/a	n/a
<b>Ruth Wayte<sup>4</sup></b> Principal Legal Advisor to the LAA	95-100	-	-	38	135-140	95-100	-	-	39	135-140
<b>Adrian Hannell<sup>5</sup></b> Deputy Director of Finance (From 29.09.16)	45-50 (85-90 FYE)	-	-	18	60-65	n/a	n/a	n/a	n/a	n/a
<b>Jane Harbottle<sup>5</sup></b> Head of Civil Case Management (From 29.09.16)	35-40 (75-80 FYE)	10.8 <sup>8 11</sup>	-	65	115-120	n/a	n/a	n/a	n/a	n/a
<b>Clare Toogood<sup>5,6</sup></b> Deputy Director Public Defenders Service (29.09.16-26.01.17)	20-25 (85-90 FYE)	-	-	7	25-30	n/a	n/a	n/a	n/a	n/a
<b>Sally Jones<sup>5,6</sup></b> Deputy Director Head of Corporate Centre (From 27.01.17)	10-15 (65-70 FYE)	-	-	5	15-20	n/a	n/a	n/a	n/a	n/a
<b>Daniel Flury<sup>5,7</sup></b> Head of Crime Case Management (29.09.16-10.03.17)	30-35 (60-65 FYE)	7.1 <sup>9 12</sup>	-	14	50-55	n/a	n/a	n/a	n/a	n/a
<b>David Thomas<sup>5,7</sup></b> Deputy Director of Assurance (From 11.03.17)	0-5 (70-75 FYE)	-	-	4	5-10	n/a	n/a	n/a	n/a	n/a

1. Matthew Coats CB, MoJ Chief Operating Officer, was remunerated through the MoJ Core Department. Details of his remuneration can be found in the MoJ Annual Report and Accounts.
2. As Chief Executive, a dual workplace agreement was entered into and the costs illustrate the benefit in kind for all travel to and from dual workplace locations.
3. Hugh Barrett left on 16 September 2016. He received an exit package of £90k-95k.
4. Ruth Wayte is remunerated through the Government Legal Department.
5. The new governance structure was agreed on 29 September 2016, including the appointment of LAA Committee Chairs to the Board.
6. Clare Toogood was employed part time (0.76 FTE). Clare was replaced as LAA People Committee Chair by Sally Jones on 27 January 2017.
7. Daniel Flury was replaced as LAA Change Committee Chair by David Thomas on 11 March 2017.
8. Jane Harbottle and Daniel Flury have a dual workplace agreement, the costs illustrate the benefit in kind for all travel to and from dual workplace locations for the period of the year as a LAA Board member.
9. James McEwen's pension benefit contains a one-off revaluation of historical pension entitlements upon joining the LAA on 1 April 2016.
10. £4.6k of all taxable benefits were reimbursed in cash through PAYE settlement agreement.
11. £0.9k of all taxable benefits were reimbursed in cash through PAYE settlement agreement.
12. £0.9k of all taxable benefits were reimbursed in cash through PAYE settlement agreement.

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

	2016-17	2015-16
Band of highest paid Executive Board Member's total remuneration excluding pension benefits (£000)	145-150	140-145
Median total remuneration (£)	22,250	21,982
Ratio	6.6 : 1	6.5 : 1

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 2016-17 was £145-150k (2015-16: £140-145k). This was 6.6 times (2015-16: 6.5) the median remuneration of the workforce, which was £22,250 (2015-16: £21,982).

In 2016-17, one contractor (2015-16: 1) received banded remuneration of £185k-190k (2015-16: £190k-195k) which was in excess of the highest paid Executive Board Member.

Staff remuneration ranged from £10k-15k to £185-190k (2015-16: £10k-15k to £190-195k). These figures exclude any severance pay in respect of compulsory redundancies and voluntary early departures disclosed in the Staff report on page 51.

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)
Shaun McNally CBE	22 October 2012	3	3
James McEwen	1 April 2016	1	3
Ruth Wayte	7 July 2003	12	3
Adrian Hannell	1 April 2016	1	3
Jane Harbottle	1 April 2016	1	3
Sally Jones	4 April 2016	1	3
David Thomas	16 January 2017	1	3

## 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, three 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

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (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 0.5% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of Classic, Premium and Classic Plus, 65 for members of Nuvos, and the higher of 65 or State Pension Age for members of 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.)

Further details about the Civil Service pension arrangements can be found at [www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk)

Table D: Executive Board Members – Pension costs for the year ended 31 March 2017

	Total accrued pension payable at age 60 at 31 March 2017 and related lump sum	Real movement in pension and related lump sum payable at age 60	CETV at 31 March 2017	CETV at 31 March 2016	Real increase in CETV
	£000	£000	£000	£000	£000
Shaun McNally CBE	Pension 35-40 Lump sum 100-105	Pension 2.5-5 Lump sum 2.5-5	662	588	45
Hugh Barrett	20-25	0-2.5	489	438	43
James McEwen	20-25	7.5-10	252	170	70
Ruth Wayte	5-10	0-2.5	106	78	19
Adrian Hannell	0-5	0-2.5	19	9 <sup>1</sup>	6
Jane Harbottle	20-25	2.5-5	283	239 <sup>1</sup>	41
Clare Toogood	20-25	0-2.5	324	320 <sup>1</sup>	3
Sally Jones	5-10	0-2.5	71	69 <sup>1</sup>	1
Daniel Flury	15-20	0-2.5	224	216 <sup>1</sup>	5
David Thomas	10-15	0-2.5	120	115 <sup>1</sup>	2

1. CETV amounts relate to the date which the Executive Board Member joined the Board.

## Cash Equivalent Transfer Value

A Cash Equivalent Transfer Value (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

NEBMs were part time and their role involved a commitment of 20 days per year during 2016-17. They will hold office until the end of the period for which they were appointed.

### Employment costs – NEBMs

Table E: NEBMs in post at 31 March 2017 – Employment costs

Non-Executive Board Member	2016-17		2015-16	
	Total amount of fees	All taxable benefits <sup>2</sup>	Total amount of fees	All taxable benefits <sup>2</sup>
	£000	£000	£000	£000
John Grosvenor ARAC Chair	10.4 <sup>1</sup>	0.4 <sup>3</sup>	10.4 <sup>1</sup>	0.6 <sup>3</sup>
Eric Gregory	8.0	0.5 <sup>3</sup>	8.0	1.1 <sup>3</sup>
Andrew Lockley	8.0	1.9 <sup>3</sup>	8.0	2.1 <sup>3</sup>

1. The remuneration includes £2,400 as Chair of the ARAC

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 in cash by the LAA using a PAYE Settlement Agreement.

### Employment contracts - NEBMs

Table F: NEBMs – Employment contracts

Non-Executive Board Member	Contract start date	Term served (years)
John Grosvenor	1 November 2012	4
Eric Gregory	1 January 2013	4
Andrew Lockley	31 January 2013	4

All NEBMs received three year contract extensions in 2015-16.

# Staff report

## Staff costs

Table G: Staff costs for the year ended 31 March 2017

	2016-17			2015-16		
	Permanently employed staff	Other	Total	Permanently employed staff	Other	Total
	£000	£000	£000	£000	£000	£000
Salaries and wages	39,067	4,003	43,070	42,964	7,579	50,543
Social security costs	3,934	231	4,165	3,233	193	3,426
Other pension costs	7,554	463	8,017	8,030	445	8,475
	50,555	4,697	55,252	54,227	8,217	62,444
Less recoveries in respect of outward secondments	(142)	-	(142)	(333)	-	(333)
Redundancy <sup>1</sup>	141	-	141	7,063	-	7,063
	50,554	4,697	55,251	60,957	8,217	69,174
Non-Executive Board Members (fees and benefits)	29	-	29	30	-	30
	29	-	29	30	-	30
<b>Total</b>	<b>50,583</b>	<b>4,697</b>	<b>55,280</b>	<b>60,987</b>	<b>8,217</b>	<b>69,204</b>

1. Redundancy costs disclosed in the above table relate to three (2015-16: 206) full time equivalent staff.

During the year £3,923k of staff costs (2015-16: £3,564k) have been capitalised.

The PCSPS is an unfunded multi-employer defined benefit scheme in which LAA is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2017. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk)).

For 2016-17, employers' contributions of £7,826k were payable to the PCSPS (2015-16: £8,280k) at one of four rates in the range 20.0% to 24.5% (2015-16: 20.0% to 24.5%) of pensionable pay, based on salary bands. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

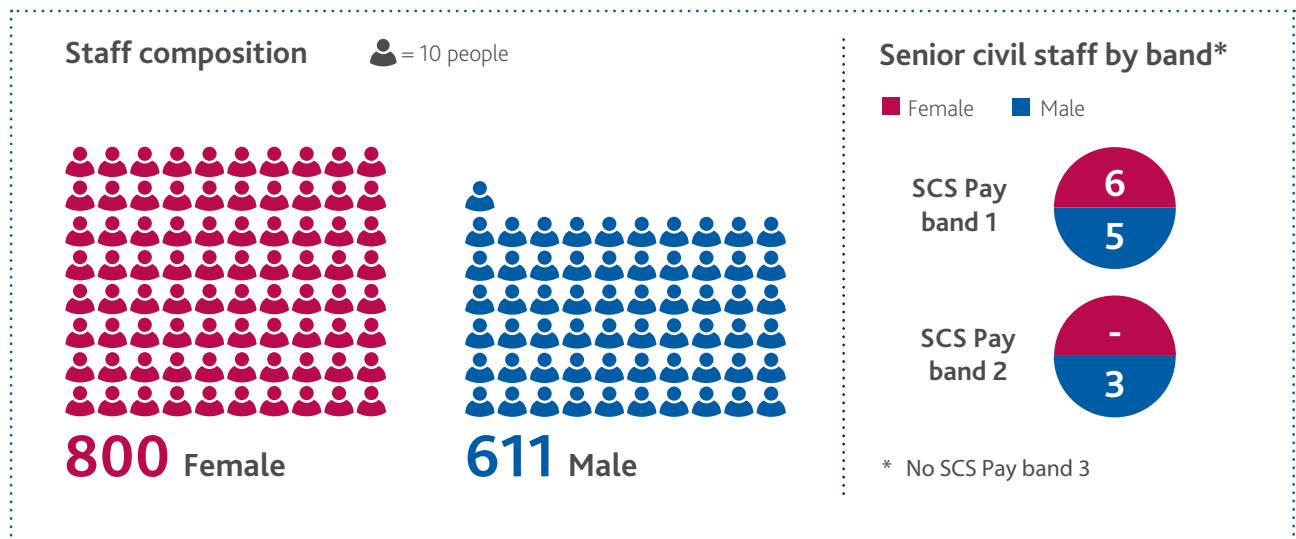
Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £191k (2015-16: £195k) were paid to one or more of a panel of appointed stakeholder pension providers.

One person (2015-16: nil) retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £5k.

### Staff numbers

Table H: Average number of persons employed

	2016-17			2015-16		
	Permanently employed staff	Other	Total	Permanently employed staff	Other	Total
Directly employed	1,241	111	1,352	1,363	114	1,477
Other	-	33	33	-	104	104
Staff engaged on capital projects	52	19	71	35	30	65
<b>Total</b>	<b>1,293</b>	<b>163</b>	<b>1,456</b>	<b>1,398</b>	<b>248</b>	<b>1,646</b>



## Diversity and inclusion

We aim to attract and retain a representative workforce which understands the needs of the diverse legal aid providers and clients 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.

In the 2016-17 Civil Service People Survey our staff rated us 2nd overall in the Civil Service for fairness and inclusion. This is in large part due to the strong engagement of staff on diversity and inclusion.

More than 30 staff volunteer as local diversity champions and others are working together in groups on a range of topics including gender, age, disability and race equality. Local diversity champions have promoted awareness on national campaigns such as International Women's Day and more local interests such as Autism Week. We also have Senior Diversity Champions who raise the visibility of issues and promote equality for race, gender, disability, age, carers, LGBT, faith and having a child/pregnancy.

### Our key work during 2016-17 included:

- introduction of diversity objectives for all staff, welcomed by 70% of staff in the Civil Service People Survey
- disability awareness training delivered by our Senior Disability Champion
- participation in a MoJ Mental Health Allies first aid pilot
- race equality workshops for LAA staff run by MoJ's Project Race.

Our Engagement and Inclusion team have been consulting with staff on a new Diversity and Inclusion Strategy for 2017-2020, with a set of actions to continue to:

- build an inclusive workplace
- increase diversity
- embed the public sector equality duty in our design and delivery of legal aid.

## 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 are included in the MoJ's Disability Policy and Ability Manual. Our people have access to the Civil Service Positive Action Coaching and career development programmes targeted to support people with a disability. During 2016-17 LAA staff could seek advice from the MoJ Reasonable Adjustment Support Service, from 1 April 2017 this service was provided by the Civil Service Workplace Adjustment Team.

## 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.

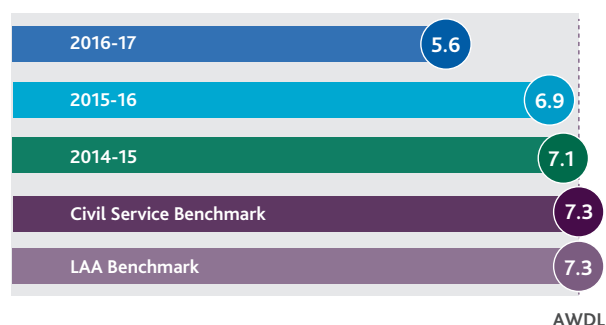


Table I: Reporting of Civil Service and other compensation schemes – exit packages

	2016-17			2015-16		
	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
<b>EXIT PACKAGE COST BAND</b>						
< £10,000	-	1	1	-	25	25
£10,000 - £25,000	-	-	-	-	65	65
£25,000 - £50,000	-	1	1	-	80	80
£50,000 - £100,000	-	1	1	-	35	35
£100,000 - £150,000	-	-	-	-	1	1
Total number of exit packages by type	-	3	3	-	206	206
Total resource cost (£000)	-	141	141	-	6,747	6,747

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 the exit package is confirmed. 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 2016-17 was £37k (2015-16: £34k).

## Off-payroll engagements

During the year, LAA has reviewed the tax arrangements of all its off-payroll appointments. All contractors within the scope of this exercise have been required to provide evidence of tax compliance. There have been no instances of non-tax compliant off-payroll engagements as at 31 March 2017. Further details of off-payroll engagements in LAA can be found in the MoJ Annual Report and Accounts.



# Parliamentary accountability disclosures

This section has been audited and incorporates a number of disclosures based on Managing Public Money requirements to produce true and fair financial statements.

## Losses and special payments

Losses	2016-17		2015-16	
	Volume	£000	Volume	£000
Write-offs	4,229	6,963	4,217	9,265
Constructive loss	-	-	1	556
Special payments	10	453	81	955
Total value of losses	4,239	7,416	4,299	10,776

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

In 2016-17, the LAA wrote-off a provider debt balance of £633k after the legal aid solicitor firm became insolvent. (2015-16: three supplier balances, £320k, £347k and £374k).

### Potential losses

The LAA's Counter fraud team support ongoing investigations into cases of suspected fraud by provider firms on matters that have been referred to police and reported to Action Fraud and the Cabinet Office.

LAA are taking steps to enforce and recover sums paid under these potentially inappropriate claims. If an investigation concludes that amounts have been obtained inappropriately, any amount that cannot be recovered may give rise to a loss in future accounts.

### Special payments

There have been no new special payments in 2016-17. Residual payments of £453k (2015-16: £955k) were settled this year for legal costs incurred by bidders challenging the criminal legal aid tender prior to the Secretary of State announcing its reversal on 28 January 2016.

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

#### Shaun McNally CBE

Chief Executive and Accounting Officer  
Legal Aid Agency  
11 July 2017

# 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 2017 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 audited the information in the Remuneration and Staff Report and the Parliamentary Accountability disclosures that is described 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 Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Legal Aid Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Legal Aid Agency; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

## Opinion on regularity

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

## Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Legal Aid Agency's affairs as at 31 March 2017 and of the net operating costs 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**  
**12 July 2017**

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



# Financial reports





# Financial Statements of the Legal Aid Agency for the year ended 31 March 2017



## Legal Aid Agency Statement of Comprehensive Net Expenditure for the year ended 31 March 2017

		2016-17	2015-16
	Note	£000	£000
Rental income		(682)	(787)
Statutory charge interest		(6,307)	(9,042)
Income under the legal aid schemes	6	(188,883)	(190,535)
<b>Total operating income</b>		<b>(195,872)</b>	<b>(200,364)</b>
Staff costs	3	55,280	69,204
Expenditure under the legal aid schemes	4	1,781,140	1,720,411
Depreciation and impairment costs	8 & 9	10,069	10,227
Other operating expenditure	5	36,025	39,337
<b>Total operating cost</b>		<b>1,882,514</b>	<b>1,839,179</b>
<b>Net operating costs for the year</b>		<b>1,686,642</b>	<b>1,638,815</b>
<b>OTHER COMPREHENSIVE EXPENDITURE</b>			
Net gain on revaluation of intangibles		(2,471)	(686)
Net gain on revaluation of property, plant and equipment		(369)	(97)
<b>Total comprehensive expenditure</b>		<b>1,683,802</b>	<b>1,638,032</b>

All income and expenditure are derived from continuing operations.

The notes on pages 64 to 91 form part of these financial statements.

**Legal Aid Agency**  
**Statement of Financial Position**  
**at 31 March 2017**

		31 MARCH 2017	31 MARCH 2016
	Note	£000	£000
<b>NON-CURRENT ASSETS</b>			
Intangible assets	8	56,161	51,992
Property, plant and equipment	9	4,247	6,282
<b>Total non-current assets</b>		<b>60,408</b>	<b>58,274</b>
<b>CURRENT ASSETS</b>			
Trade and other receivables	11	135,918	133,778
Cash and cash equivalents	12	10,894	16,192
<b>Total current assets</b>		<b>146,812</b>	<b>149,970</b>
<b>Total assets</b>		<b>207,220</b>	<b>208,244</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	(196,569)	(241,306)
Provisions for liabilities and charges	15	(626,674)	(592,333)
<b>Total current liabilities</b>		<b>(823,243)</b>	<b>(833,639)</b>
<b>Total assets less current liabilities</b>		<b>(616,023)</b>	<b>(625,395)</b>
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables	13	(571)	(558)
Provisions for liabilities and charges	15	(2,063)	(1,828)
<b>Total non-current liabilities</b>		<b>(2,634)</b>	<b>(2,386)</b>
<b>Assets less liabilities</b>		<b>(618,657)</b>	<b>(627,781)</b>
<b>TAXPAYERS' EQUITY</b>			
Revaluation reserve		3,165	1,391
General reserve		(621,822)	(629,172)
		<b>(618,657)</b>	<b>(627,781)</b>

The notes on pages 64 to 91 form part of these financial statements.

Signed for and on behalf of the Legal Aid Agency

**Shaun McNally CBE**

Chief Executive and Accounting Officer

Legal Aid Agency

11 July 2017

**Legal Aid Agency**  
**Statement of Cash Flows**  
**for the year ended 31 March 2017**

	Note	2016-17 £000	2015-16 £000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net operating costs		(1,686,642)	(1,638,815)
Adjustments for notional and non-cash transactions		19,955	20,927
Intra-departmental balances settled via General Reserves		23,703	24,154
Loss/(gain) on impairment, revaluation and loss on disposal	5	14	(63)
Increase in trade and other receivables		(2,140)	(22,296)
Decrease in trade and other payables		(44,724)	(26,226)
Less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		15	(105)
Movement in provisions		34,576	(2,360)
Net cash outflow from operating activities		(1,655,243)	(1,644,784)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of intangible assets	7	(8,442)	(7,631)
Purchase of property, plant and equipment	7	(586)	(724)
Net cash outflow from investing activities		(9,028)	(8,355)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Supply funding from the Ministry of Justice: revenue		1,649,805	1,655,027
Supply funding from the Ministry of Justice: capital		9,168	8,552
Net cash inflow from financing activities		1,658,973	1,663,579
Net decrease in cash and cash equivalents in the year		(5,298)	10,440
Cash and cash equivalents at the beginning of the year		16,192	5,752
Cash and cash equivalents at the end of the year	12	10,894	16,192

The notes on pages 64 to 91 form part of these financial statements.

**Legal Aid Agency**  
**Statement of Changes in Taxpayers' Equity**  
**for the year ended 31 March 2017**

	Note	REVALUATION RESERVE £000	GENERAL RESERVE £000	TOTAL £000
Balance at 1 April 2015		1,292	(691,035)	(689,743)
<b>CHANGES IN TAXPAYERS' EQUITY FOR 2015-16</b>				
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)
<b>OTHER COMPREHENSIVE EXPENDITURE</b>				
Net gain on revaluation		783	–	783
<b>NON-CASH ADJUSTMENT</b>				
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
<b>MOVEMENT IN RESERVES</b>				
Transfers from revaluation reserve		(684)	684	–
Balance at 31 March 2016		1,391	(629,172)	(627,781)
<b>CHANGES IN TAXPAYERS' EQUITY FOR 2016-17</b>				
Supply funding from the Ministry of Justice: revenue		–	1,649,805	1,649,805
Supply funding from the Ministry of Justice: capital		–	9,168	9,168
Net operating cost for the year		–	(1,686,642)	(1,686,642)
<b>OTHER COMPREHENSIVE EXPENDITURE</b>				
Net gain on revaluation		2,840	–	2,840
<b>NON-CASH ADJUSTMENT</b>				
Intra-departmental adjustment		–	23,912	23,912
Notional recharge from the Ministry of Justice	5	–	9,841	9,841
Notional external audit fee	5	–	200	200
<b>MOVEMENT IN RESERVES</b>				
Transfers from revaluation reserve		(1,066)	1,066	–
Balance at 31 March 2017		3,165	(621,822)	(618,657)

The notes on pages 64 to 91 form part of these financial statements.

# Legal Aid Agency

## Notes to the Financial Statements

### for the year ended 31 March 2017

#### Note – 1 Statement of accounting policies

The financial statements have been prepared in accordance with the Government Financial Reporting Manual (FReM) 2016 to 2017, 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.

##### *Significant judgements and sources of estimation*

The preparation of financial statements requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the end of the financial statements and the reported amounts of income and expenditure during the reporting period.

The estimates and associated assumptions included within the financial statements are based on data held by the LAA, historical experience and various other factors. These are believed to provide a reasonable basis on which the carrying values of assets and liabilities that are not readily apparent from other sources can be estimated.

The key areas in which management make estimations are intangible assets (note 8), 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 ended 31 March 2017.

### *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 2016 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 2016 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.

## 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 cash flows 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 the reporting date but not yet billed. Estimates for each legal aid scheme, including Civil Representation, Civil Legal Help, Crime Higher and Crime Lower, are produced using available data and statistical modelling techniques. The assumptions used by management in producing these estimates are described in financial risk identification and management (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 financial statements as a provision. The amount is an estimate of the expenditure required to settle any obligation at the reporting period end date.

***Dilapidations of leasehold property***

Provisions are 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.

***Legal costs***

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

**g) Operating leases**

Rental payments are charged to the Statement of Comprehensive Net Expenditure on a straight line basis over the term of the lease 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 of cash and cash equivalents and 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 discount rates published by HM Treasury.

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, the enforcement of the debt may be deferred. Repayment of deferred debts can take longer than one year to recover.

### ***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 of 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 is provided in fair values (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.

## **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 in financial risk identification and management (note 10) 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.

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

Irrecoverable Value Added Tax (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% per annum from the date of payment.

The movement in third party funds is reported in third party assets (note 20) to these financial statements.

## **l) Employee benefits**

The LAA accrues for the expected cost of the annual leave entitlement of its employees in accordance with International Accounting Standards (IAS) 19 'Employee Benefits'. 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 receive 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.

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 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-current 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 are recognised as a non-cash charge.

#### **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 principal balance at 8.0% per annum.

#### **x) Pensions**

##### ***Principal Civil Service Pension Scheme***

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded defined benefit scheme of which the LAA is unable to recognise its share of underlying assets and liabilities. In accordance with FReM, the LAA accounts for these as a defined contribution scheme. The LAA recognises the contributions payable to defined contribution schemes as an expense in the year in which they are 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.

## Legal Aid Agency

### Notes to the Financial Statements (continued)

#### for the year ended 31 March 2017

#### Note – 2 Segmental analysis

The LAA divides the net operating costs into three segments; Legal Aid Fund, Administration and Central Funds, for the purpose of making operational decisions and reporting to the LAA Board.

The Administration segment reflects the cost of running the LAA.

The Legal Aid Fund is further subdivided into Legal Help, Civil Representation, Crime Lower, and Crime Higher.

- Legal Help represents legal aid in relation to advice and support provided for a legal issue.
- Civil Representation relates to legal aid that covers representation by barristers and solicitors in civil cases that could go to court.
- Crime Lower covers legal representation to those accused of criminal offences at police stations and in Magistrates Courts.
- Crime Higher covers representation in Crown Courts, Court of Appeal and Supreme Court.

Central Funds reflects the spend on orders made to acquitted defendants who have privately funded their legal representation.

The following table presents the net operating costs by segment for the year ended 31 March 2017:

	2016-17	2015-16
	£000	£000
<b>FUND</b>		
Legal Help	92,656	95,143
Civil Representation	538,456	518,580
Crime Lower	278,786	282,151
Crime Higher	633,718	582,383
<b>CENTRAL FUNDS</b>	47,985	48,059
<b>ADMINISTRATION</b>	95,041	112,499
Net operating costs for the year	1,686,642	1,638,815

### Note – 3 Staff costs

	2016-17			2015-16		
	Permanently employed staff	Other	Total	Permanently employed staff	Other	Total
	£000	£000	£000	£000	£000	£000
Salaries and wages	39,067	4,003	43,070	42,964	7,579	50,543
Social security costs	3,934	231	4,165	3,233	193	3,426
Other pension costs	7,554	463	8,017	8,030	445	8,475
	50,555	4,697	55,252	54,227	8,217	62,444
Less recoveries in respect of outward secondments	(142)	–	(142)	(333)	–	(333)
Redundancy*	141	–	141	7,063	–	7,063
	50,554	4,697	55,251	60,957	8,217	69,174
Non-Executive Board Members (fees & benefits)	29	–	29	30	–	30
	29	–	29	30	–	30
<b>Total</b>	<b>50,583</b>	<b>4,697</b>	<b>55,280</b>	<b>60,987</b>	<b>8,217</b>	<b>69,204</b>

\* Redundancy costs disclosed in the table above relate to three (2015-16: 206) full time equivalent staff.

## Note – 4 Expenditure under the legal aid schemes

	2016-17	2015-16
	£000	£000
<b>CIVIL REPRESENTATION</b>		
Solicitors' charges, counsel fees and disbursements (provided in year - note 15)		
Bills submitted in year	697,137	682,622
Provision for work in progress movement	(5,975)	6,027
Refund of contributions	793	422
Costs of successful unassisted parties	1,091	1,077
Debt impairment and write offs	7,094	(11,514)
Discount of debt	291	9,372
	700,431	688,006
<b>CIVIL LEGAL HELP</b>		
Solicitors' charges, counsel fees and disbursements (provided in year - note 15)		
Bills submitted in year	97,910	94,482
Provision for work in progress movement	(8,548)	(6,677)
Direct services	5,603	5,489
Debt impairment and write offs	(2,313)	1,258
Discount of debt	(326)	272
	92,326	94,824
<b>CRIME LOWER</b>		
Solicitors' charges, counsel fees and disbursements (provided in year - note 15)		
Bills submitted in year	267,808	269,835
Provision for work in progress movement	7,072	2,371
Direct services and public defender service	3,572	4,003
Debt impairment and write offs	(1,108)	642
Discount of debt	(156)	137
	277,188	276,988
<b>CRIME HIGHER</b>		
Solicitors' charges, counsel fees and disbursements (provided in year - note 15)		
Bills submitted in year	612,678	612,164
Provision for work in progress movement	39,456	(4,106)
Public defender service	272	-
Debt impairment and write offs	7,776	(1,030)
Discount of debt	3,029	5,506
	663,211	612,534
<b>CENTRAL FUNDS</b>		
Central fund expenditure (provided in year - note 15)		
Defence cost orders awarded in Crown and magistrates' courts	34,213	38,150
Provision for work in progress movement	2,861	(1,029)
Interpreters and other	10,910	10,938
	47,984	48,059
<b>Total</b>	<b>1,781,140</b>	<b>1,720,411</b>

## Note – 5 Other operating expenditure

	2016-17	2015-16
	£000	£000
Accommodation and related costs	3,264	3,107
Office, IT and service running costs	14,732	13,489
Staff and committee member related costs	1,346	1,361
Operating leases	2,666	2,836
Legal and professional costs	1,346	4,059
Service level agreements with HMCTS	172	820
Other administration costs	2,171	1,953
	25,697	27,625
<b>NON-CASH COSTS</b>		
Revaluation and impairment of intangible assets	-	(33)
Revaluation and impairment of property, plant and equipment	-	(30)
Loss on disposal of assets	14	-
Movement in provision for legal costs and dilapidation	428	1,101
Notional recharge from the MoJ	9,841	10,572
Notional external audit fee	200	220
Operating lease amortisation	(155)	(92)
Borrowing costs of provisions	-	(26)
	10,328	11,712
<b>Total</b>	<b>36,025</b>	<b>39,337</b>

## Note – 6 Income under the legal aid schemes

	2016-17	2015-16
	£000	£000
<b>CIVIL REPRESENTATION</b>		
Contributions by funded clients	9,069	12,591
Costs recoverable	134,487	130,783
Recoveries from damages and statutory charge	12,221	17,010
	155,777	160,384
<b>CRIMINAL CASES</b>		
Crown Court recoveries	33,099	28,935
Recovery of defence costs	7	1,216
	33,106	30,151
<b>Total</b>	<b>188,883</b>	<b>190,535</b>



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

	2016-17	2015-16
	£000	£000
Additions of intangible assets (note 8)	8,582	7,828
Increase in capital accrual	(140)	(197)
<b>Total intangible asset purchases per Statement of Cash Flows</b>	<b>8,442</b>	<b>7,631</b>
Additions of property, plant and equipment (note 9)	586	724
<b>Total property, plant and equipment purchases per Statement of Cash Flows</b>	<b>586</b>	<b>724</b>

## Note – 8 Intangible assets

	ASSETS UNDER CONSTRUCTION	COMPUTER SOFTWARE	TOTAL
	£000	£000	£000
Cost at 1 April 2016	11,235	83,928	95,163
Reclassifications	(1,492)	1,523	31
Additions	8,528	54	8,582
Disposals	-	(76)	(76)
Transfers from the MoJ	209	-	209
Revaluations	-	4,908	4,908
<b>Cost at 31 March 2017</b>	<b>18,480</b>	<b>90,337</b>	<b>108,817</b>
Amortisation at 1 April 2016	-	43,171	43,171
Reclassifications	-	-	-
Charged in year	-	7,110	7,110
Disposals	-	(62)	(62)
Transfers from the MoJ	-	-	-
Revaluations	-	2,437	2,437
<b>Amortisation at 31 March 2017</b>	<b>-</b>	<b>52,656</b>	<b>52,656</b>
<b>Net book value at 31 March 2017</b>	<b>18,480</b>	<b>37,681</b>	<b>56,161</b>

The total additions include £1,137k (2015-16: £997k) capital accruals at 31 March 2017.

The revaluation reserve balance of £3,165k in the Statement of Taxpayer's Equity includes £2,521k (2015-16: £1,116k) relating to intangible assets at 31 March 2017.

All intangible assets are owned by the LAA.

	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
Reclassification	-	-	-
Charged in year	-	7,296	7,296
Transfer from the MoJ	-	-	-
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

## Note – 9 Property, plant and equipment

	ASSETS UNDER CONSTRUCTION	FIXTURES AND FITTINGS	FURNITURE AND EQUIPMENT	INFORMATION TECHNOLOGY	TOTAL
	£000	£000	£000	£000	£000
Cost at 1 April 2016	748	-	208	17,298	18,254
Reclassifications	(788)	-	-	757	(31)
Additions	242	-	-	344	586
Transfers from the MoJ	-	-	31	-	31
Revaluations	-	-	-	1,058	1,058
Cost at 31 March 2017	202	-	239	19,457	19,898
Depreciation at 1 April 2016	-	-	208	11,764	11,972
Reclassifications	-	-	-	-	-
Charged in year	-	-	-	2,959	2,959
Transfers from the MoJ	-	-	31	-	31
Revaluations	-	-	-	689	689
Depreciation at 31 March 2017	-	-	239	15,412	15,651
Net book value at 31 March 2017	202	-	-	4,045	4,247

The revaluation reserve balance of £3,165k in the Statement of Taxpayer's Equity includes £644k (2015-16: £275k) relating to property, plant and equipment at 31 March 2017.

All property, plant and equipment are owned by the LAA.

	ASSETS UNDER CONSTRUCTION	FIXTURES AND FITTINGS	FURNITURE AND 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
Reclassifications	-	-	208	6	214
Charged in year	-	26	-	2,905	2,931
Disposals	-	(3,569)	-	-	(3,569)
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

## 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 2017, £77.2m (2015-16: £79.4m) 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 Interbank 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 2017.

The LAA considers its maximum exposure to credit risk to be:

	2016-17	2015-16
	£000	£000
Cash and cash equivalents	10,894	16,192
Trade and other receivables	135,918	133,778
Third party assets	17,079	18,605
	163,891	168,575

Cash and cash equivalents comprise of bank balances held with commercial banks, including those administered through the GBS, with original maturities of three months or less. As at 31 March 2017 there were no financial guarantees or third party obligations, other than amounts held as damages on deposit and CCMT, 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 enforcement 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 £206.0m (2015-16: £202.9m).

The majority of the LAA's trade and other receivables are the result of a statutory charge, £77.2m (2015-16: £79.4m) out of a total receivables balance after impairment of £135.9m (2015-16: £133.8m).

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.

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 life of debt, income being received against debt evenly throughout the year, and the discount rate of 3.7% nominal and 0.7% real (2015-16: 3.7% nominal and 0.7% real).

### Assumptions tested

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

- income received evenly throughout the year rather than at the end of the year
- predicted income receipts used to calculate the impairment provision cash flows +/- 10%
- discount rate +/-1% (this rate is set by HM Treasury)

ASSUMPTIONS TESTED		INCREASE/(DECREASE) IN NET FINANCIAL ASSET	
	Assumption	2016-17 £m	2015-16 £m
Income received	Evenly through the year	1.5	1.1
Predicted income receipts	+10%	10.2	10.4
Predicted income receipts	-10%	(10.1)	(11.2)
Discount rate	+1%	(5.4)	(5.2)
Discount rate	-1%	6.0	5.3

Using these reasonably possible alternative assumptions, the fair value of the financial assets at 31 March 2017 could be higher by £17.7m (2015-16: £16.8m) or lower by £15.5m (2015-16: £16.4m).

Assumptions will be reviewed annually 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. Each assumption within the provision models has been identified, a reasonable change identified and the impact on the final work in progress balance calculated. Assumptions have been changed to either represent those which would have been utilised by the model based on historical data trends or flexed by a percentage that is considered appropriate by management to show the impact on the provision.

For each assumption which is being analysed for sensitivity, only that assumption is changed. If two or more assumptions are changed at one time, the actual sensitivity of a change in assumption is obscured because of the potential interrelation of the assumptions.

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 reasonable alternatives to these inputs have been quantified below:

- price profiles +7.8% to -7.2%
- case duration +8.1% to -6.9%
- forecast spend +3.8% to -10.4%

### Assumptions tested

	INCREASE IN NET FINANCIAL LIABILITY		(DECREASE) IN NET FINANCIAL LIABILITY	
	%	£m	%	£m
Price profiles	7.8%	4.1	-7.2%	(3.8)
Case duration	8.1%	29.1	-6.9%	(24.6)
Forecast spend	3.8%	12.0	-10.4%	(32.5)

Using these reasonable alternative assumptions, work in progress as at 31 March 2017 could be higher by £45.2m (2015-16: £17.1m) or lower by up to £60.9m (2015-16: £24.6m).

The above assumptions exclude the model variables used in the calculation of the Civil Representation work in progress provision of £305m (2015-16: £311m).

### 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 business realities of billing timing.

The impact of reasonable alternatives to the model inputs has been quantified below:

- transition cost and duration profile using data to March 2016
- billing duration +20 days to -20 days
- dormancy cut-off assumption +180 days



## Assumptions tested

ASSUMPTIONS TESTED		INCREASE		(DECREASE)	
	Assumption	£m	Assumption	£m	
Transition cost and duration profile	March 2016 profiles	22.1	March 2016 profiles	(22.1)	
Billing duration	+20 days	7.4	-20 days	(5.2)	
Dormancy assumption	+180 days	30.3	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. 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 2017 could be higher by up to £59.8m (2015-16: £36.1m) or lower by up to £27.3m (2015-16: £15.5m).

## Cash

Cash balances are maintained with strong investment grade banks. 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

	2016-17	2015-16
	£000	£000
<b>AMOUNTS FALLING DUE WITHIN ONE YEAR:</b>		
Gross debt	341,939	336,657
Impairment provision	(206,021)	(202,879)
<b>Total</b>	<b>135,918</b>	<b>133,778</b>

### BY COMPONENT:

Contributions due from funded clients	7,090	6,634
Costs to be recovered	1,005	800
Damages	286	131
Amounts due from service providers	17,311	20,161
Recovery of defence costs	29,875	22,997
Prepayments and accrued income	690	683
Intra-departmental debtors	994	2,169
Other receivables	1,500	761
Statutory charge and interest	77,167	79,442
	<b>135,918</b>	<b>133,778</b>

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

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

The net amount of statutory charge debt is:

	2016-17	2015-16
	£000	£000
Statutory charge	51,933	55,381
Interest accrued to date	25,234	24,061
	<b>77,167</b>	<b>79,442</b>

All receivables are disclosed as due within one year although, in the case of statutory charge debts the enforcement of the debt may be deferred. Repayment of deferred debts can take longer than one year to recover.

## Note – 12 Cash and cash equivalents

	2016-17	2015-16
	£000	£000
Balance at 1 April	16,192	5,752
Net change in cash and cash equivalent balances	(5,298)	10,440
	10,894	16,192

The balance at 31 March 2017 were held at:

	2016-17	2015-16
	£000	£000
Government Banking Service	5,513	8,718
Commercial banks	5,381	7,474
Total cash and cash equivalents	10,894	16,192

## Note – 13 Trade payables and other liabilities

	2016-17	2015-16
	£000	£000
Amounts falling due within one year:		
Amounts due to solicitors, counsel and advice agencies	71,642	104,215
Contribution refunds due to funded clients	1,572	2,671
Accruals and deferred income	99,696	112,408
Other taxation and social security costs	1,652	1,054
Intra-departmental creditors	13,921	16,607
Other payables	8,086	4,351
	196,569	241,306

	2016-17	2015-16
	£000	£000
Amounts falling due after one year:		
Accruals and deferred income	571	558
	571	558

## 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	2016-17	2015-16
	£000	£000
Trade and other receivables	135,918	133,778
Cash and cash equivalents	10,894	16,192
Trade payables and other liabilities	(197,140)	(241,864)
At 31 March	(50,328)	(91,894)

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% nominal, 0.7% real (2015-16: 3.7% nominal, 0.7% real). 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 DILAPIDATIONS	PROVISION FOR EARLY DEPARTURE	TOTAL
	£000	£000	£000	£000	£000	£000
At 1 April 2016	585,208	5,194	1,136	2,307	316	594,161
Provided in year	1,707,538	37,074	803	62	-	1,745,477
Provisions utilised in year	(1,675,533)	(34,213)	(596)	-	(122)	(1,710,464)
Provisions not required written back	-	-	(243)	-	(194)	(437)
At 31 March 2017	617,213	8,055	1,100	2,369	-	628,737

	£000	£000	£000	£000	£000	£000
At 1 April 2015	587,593	6,223	265	2,440	-	596,521
Provided in year	1,656,718	37,121	1,259	70	316	1,695,484
Provisions utilised in year	(1,659,103)	(38,150)	(251)	(86)	-	(1,697,590)
Provisions not required written back	-	-	(137)	(91)	-	(228)
Unwinding of discount	-	-	-	(26)	-	(26)
At 31 March 2016	585,208	5,194	1,136	2,307	316	594,161

	PROVISION FOR AMOUNTS OUTSTANDING ON FUNDED CASES	PROVISION FOR AMOUNTS OUTSTANDING IN RELATION TO PRIVATELY FUNDED CASES (CENTRAL FUNDS)	PROVISION FOR LEGAL COSTS	PROVISION FOR DILAPIDATIONS	PROVISION FOR EARLY DEPARTURE	TOTAL
	£000	£000	£000	£000	£000	£000
Analysis of expected timing of discounted flows						
Not later than one year	617,213	8,055	1,100	306	-	626,674
Later than one year and not later than five years	-	-	-	1,790	-	1,790
Later than five years	-	-	-	273	-	273
Balance at 31 March 2017	617,213	8,055	1,100	2,369	-	628,737

Analysis of expected timing of discounted flows	PROVISION FOR AMOUNTS OUTSTANDING ON FUNDED CASES	PROVISION FOR AMOUNTS OUTSTANDING IN RELATION TO PRIVATELY FUNDED CASES (CENTRAL FUNDS)	PROVISION FOR LEGAL COSTS	PROVISION FOR DILAPIDATIONS	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

The LAA estimates the value of unbilled live cases and unbilled defence cost orders each year to arrive at the amounts disclosed within the financial statements as a provision. The amount is an estimate of the expenditure required to settle any obligation at the end of the reporting period. 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.

The costs of the dilapidations provisions are expected to be incurred between 2017 and 2026 as each lease expires.

## Note – 16 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:	LAND AND BUILDINGS	
	2016-17	2015-16
	£000	£000
Not later than one year	2,559	2,289
Later than one year and not later than five years	2,821	3,389
Later than five years	794	982
	6,174	6,660

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 – 17 Financial commitments

The total payments to which the LAA is committed are as follows:

	2016-17	2015-16
	£000	£000
Not later than one year	1,946	1,768
Later than one year and not later than five years	725	0
	2,671	1,768

## Note – 18 Contingent assets and liabilities

At 31 March 2017, the LAA was investigating no compensation claims (2015-16: 33 compensation claims with a potential liability of £239k).

There are also four employment tribunals and one legal challenge ongoing which are at varying stages of resolution.

The LAA have two contingent assets in relation to cost orders from legal proceedings with a total value of £221k (2015-16: four with a total value of £320k).



## Note – 19 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 2016-17 no Board Members or other related parties have undertaken any transactions with the LAA.

## Note – 20 Third party assets

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

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

	31 MARCH 2016	GROSS INFLOWS	GROSS OUTFLOWS	31 MARCH 2017
	£000	£000	£000	£000
Damages *	7,410	5,802	(7,049)	6,163
Crown Court Means Test **	11,195	21,553	(21,832)	10,916
Total third party assets held as cash	18,605	27,355	(28,881)	17,079

\* 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 – 21 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. There are no subsequent events to report.





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