



HM Courts &
Tribunals Service

HM Courts & Tribunals Service Trust Statement

2017-18







HM Courts &
Tribunals Service

HM Courts & Tribunals Service Trust Statement 2017-18

HM Courts & Tribunals Service is an executive agency of the Ministry of Justice.

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

Ordered by the House of Commons to be printed 19 July 2018.



© Crown copyright 2018

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at www.gov.uk/government/publications

Any enquiries regarding this publication should be sent to us at
HM Courts & Tribunals Service, Communications Team, 6th Floor, 102 Petty France, London SW1H 9AJ
or HMCTS.Communications@justice.gov.uk

ISBN 978-1-5286-0647-9

CCS0618902148 07/18

Printed on paper containing 75% recycled fibre content minimum

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



Contents

Section 1: Introductions	3
Accounting Officer's Foreword to the Trust Statement	4
Introduction to the Trust Statement	5
Section 2: Our Performance	9
Business Overview	10
Section 3: Our controls and governance	17
Accounting Officer's responsibilities	18
Governance Statement	19
Section 4: External scrutiny	29
The Certificate and Report of the Comptroller and Auditor General to the House of Commons	30
Section 5: Our expenditure	33
Statement of Revenue and Expenditure for the period ended 31 March 2018	34
Statement of Financial Position as at 31 March 2018	35
Statement of Cash Flows for the period ended 31 March 2018	36
Notes to the Trust Statement	37



Contents

Section 1: Introductions



Accounting Officer's Foreword to the Trust Statement

I'm pleased to present the foreword for the HMCTS Trust Statement. I'm delighted that for a fifth year, the Comptroller and Auditor General has been able to provide an unqualified audit opinion on the statement. This is testament, once again, to all the hard work that our partner agencies, and colleagues across HMCTS, have put in to the enforcement and collection of the range of financial impositions for which we are collectively responsible.

Throughout the course of this year, the programme of courts and tribunals reform has continued to deliver real change and improvement to our services, starting to deliver a justice system that is fit for the 21st century and designed around what the people who use our services want and need.

As part of our change programme, we have continued to deliver an improved approach to compliance and enforcement; this approach is evident throughout the lifecycle of an imposition – from the introduction of digital in-court resulting, which expedites the issuing of court results,

to the rigorous assessment of the debt to ensure that the most applicable payment method is applied to the account.

Our determination to improve in this area is further evidenced by the work of the historic debt team in enforcing outstanding debt which has accumulated over the years from unpaid criminal fines and financial impositions where debtors could not previously be traced. In the current financial year, more than £21.1million has been collected and, of that sum, £452,000 has been paid to compensates. The work of the historic debt team has helped to contribute to an increase of £31.7million in fine collections, a 12% increase on the previous year. We will continue our efforts to collect outstanding amounts, ensuring that HMCTS does everything in its power to ensure that offenders pay what they owe.

We will continue to ensure that our collection and enforcement services are as efficient as possible, and focused on our key aim of ensuring that justice is delivered.

Susan Acland-Hood

Chief Executive and Accounting Officer

Introduction to the Trust Statement

Introduction

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

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

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

The Trust Statement accounts do not include the costs of running HM Courts & Tribunals Service. These are reported separately in the HM Courts & Tribunals Service Annual Report and Accounts 2017-18 (HC 1232) which also sets out the general direction and priorities for the agency, details of its management and the Chief Executive's report.

Scope

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

Fines, prosecutors' costs and compensation orders – These items are imposed by both Magistrates' and Crown Courts and are enforced by the National Compliance and Enforcement Service, part of HM Courts & Tribunals Service. Fines collected by HM Courts & Tribunals Service are surrendered to the Consolidated Fund after any retentions permitted by HM Treasury. Prosecutors' costs and compensation order monies are passed to the relevant prosecuting authority and the victims of the crimes committed respectively.

Confiscation Orders – Confiscation orders are imposed by the Crown Court. These require the defendant to pay back the proceeds of acquisitive crime. The orders are made under the Proceeds of Crime Act 2002 and can result in the seizure and sale of assets. 38.9% of confiscation orders by value are enforced by agencies other than HM Courts & Tribunals Service, including the CPS, SFO, Department for Work and Pensions and local authorities. The typical composition of confiscation orders is a small volume of high value orders and a larger volume of low value orders. Confiscation order receipts are surrendered to the Home Office, with a portion subsequently returned to the Ministry of Justice (MoJ) under the asset recovery incentivisation scheme.

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

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

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

Criminal Court Charge – The criminal court charge was an additional financial imposition designed to recover some of the costs of the criminal court from those convicted of an offence. On 3 December 2015 the Secretary of State laid a statutory instrument with the effect that from 24 December 2015 the criminal court charge would no longer be imposed. The charges in the 2017-18 accounts relate to remissions and appeals against levies of the criminal court charge raised in 2015-16. All charges imposed up to that point are still payable. Receipts from the criminal court charge are due to the MoJ and are recorded in the MoJ departmental accounts.

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

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

As part of the 2015 Spending Round settlement HM Treasury has permitted the MoJ to retain collections from fines and fixed penalty impositions, the amount permitted to be retained is managed within an overall income settlement for the MoJ set by HM Treasury according to their Consolidated Budgeting Guidance. The total amount retained for 2017-18 and 2016-17 is disclosed under disbursements in the Statement of Revenue and Expenditure as Revenue retained by the MoJ.

Section 1

Introductions

Section 2: Our Performance



Business Overview

Financial performance

Life cycle of an imposition

Upon conviction of an offence a defendant is sentenced by the Court. This may take the form of a financial penalty referred to as an **Imposition**, the imposition can be made up of various components including

- Compensation – to compensate the victim of the crime
- Victim Surcharge – used to fund victim services
- Costs – these will be the agreed costs incurred by the case prosecutor
- Fine – this is the punitive penalty associated with the crime
- Confiscation Order – issued under the Proceeds of Crime Act

Impositions can also take the form of a penalty notice issued by the Police or other sums which are enforced by the magistrates' court as if there has been a conviction, and these too can come from third parties, for example in relation to Immigration and Asylum.

Upon the creation of the imposition, the Courts Service will raise a debtor account for the amount that is owed by the defendant and corresponding creditor accounts for the various parties that are owed funds from the defendant because of the imposition. These amounts due to creditors are referred to as **Disbursements**.

Courts will often agree for a defendant to pay the imposition over a period of time, meaning that the debtor account will remain open for the length of time taken to pay the imposition. Note 4 of the accounts reports that £2,689million was outstanding at the start of the 2017/18 financial year.

As receipts, referred to as **collections**, are received from defendants, funds are dispersed in accordance with a strict disbursement hierarchy which ensures that victims of the crime are reimbursed before any other creditor. No payments can be made to creditors until a receipt has been received from the debtor.

In very limited scenarios HMCTS may decide to administratively write off the debt, the circumstances in which this can happen are severely restricted and occur only when there is no opportunity for the debt to be collected, for example, when a company has been dissolved with no distributable assets. The debt is **written off** for administrative purposes only, the imposition is still legally enforceable and if in the future it becomes apparent that assets are available to pay the debt then the account is **written back**. There also remain specific situations where the Court can legally cancel any debt.

These adjustments are reported in Note 4. During 2017/18 the overall impact of these adjustments show that HMCTS wrote back £61million. The most significant reason for this was the impact of the historic debt project, whereby debt previously classed as untraceable has now been reviewed and assessed as collectable.

The **closing debt balance** as shown in note 4 consists of the balance brought forward from last financial year plus new impositions less collections and write offs.

The amount shown on the Statement of Financial Position as **Receivables** is the closing debt balance as described above less an adjustment referred to as an **Impairment** which reduces the debt balance to the amount that for accounting purposes is deemed to be collectable.

Impositions revenue

Total imposition revenue increased from £900million in 2016-17 to £952million in 2017-18, an increase of £52million. This was driven mainly by an increase in the number of confiscation orders imposed.

In 2017-18 there have continued to be remissions granted for Criminal Court Charges in-line with the legislative provisions, due to the cessation of the charge in December 2015. These remissions appear as a negative imposition in the Statement of Revenue and Expenditure.

Disbursements and expenditure

Total disbursements and expenditure have increased by £67million from £842million in 2016-17 to £909million in 2017-18.

£27million of this overall increase is due to a decrease in credit losses incurred in the year which is mainly attributable to

- The work of the historic debt project which has resulted in a net amount of £61million of accounts (£24million: 2016-17) being written back in the accounts.
- a reduction in the impairment charge for the year for the criminal court charge due to the revision in the impairment estimate which has caused an increase in the net debt recoverable. This increase in the recoverable net debt causes a corresponding increase in the value of the disbursements due to the relevant third parties.

The overall impact is that there is a £15million reduction to £43million in the net revenue due to the Consolidated Fund which was £58million in 2016-17.

Collections

Improved enforcement activity has continued to result in strong cash collections. This performance has been driven by a number of factors including

- The Historic Debt Project which is using new intelligence and tracing tools to enrich data and enforce outstanding debts. During 2017/18 £21.1million of outstanding debt has been collected of which £452,000 has been paid out in compensation to victims of these crimes.
- Increased use of a data sharing initiative with HMRC and DWP allowing identification of debtors and using appropriate collection methods including the use of Attachment of Earnings orders and Attachment of Benefits orders.
- The prompt payment of several high value impositions. During 2017/18 impositions in excess of £1.5million were issued to the value of £33.4million, of these £22.3million has already been collected

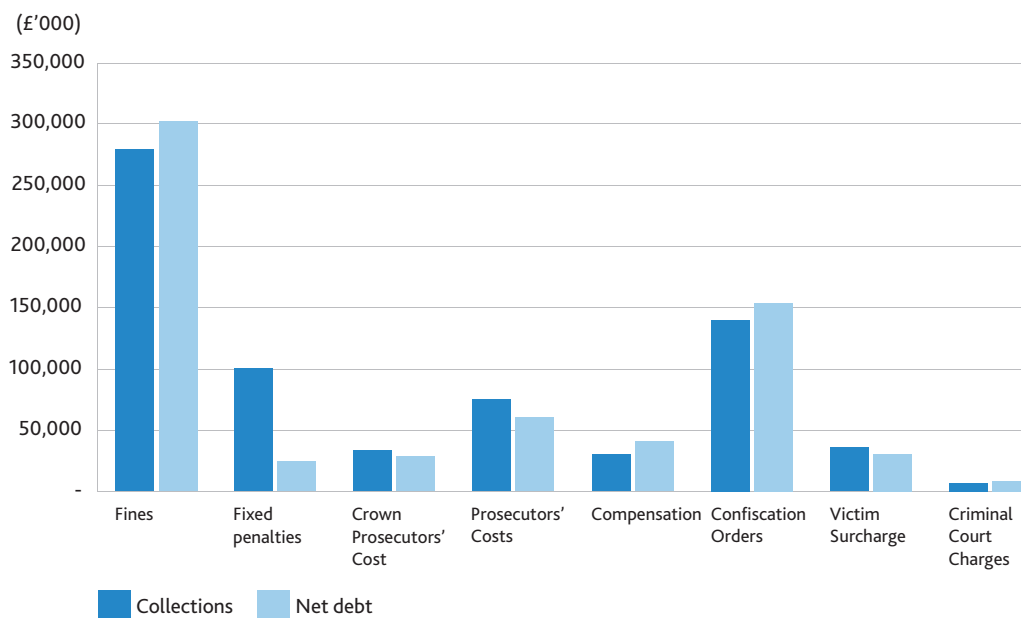
Impairment of debt

The impairment charge, as reported in Notes 2 and 4, is an accounting estimate of the amount of outstanding debt which has been assessed as theoretically unrecoverable. The charge reduces the value of the overall debt to an amount that HMCTS has estimated to be recoverable and ensures that the Financial Statements do not value the debt at more than is potentially collectable.

The impairment charge and resulting net debt figure are solely accounting estimates and do not reflect the value of the debt that is being enforced by HMCTS. HMCTS continues to enforce the full value of the debt imposed by the Court.

In order to calculate the impairment charge each component of a financial imposition has been separately assessed to calculate the appropriate level of impairment. In calculating the charge various factors are taken into consideration such as the historical payment rates for each of the impositions elements. This ensure that the net debt figure reflects the estimated recoverable amount for each type of imposition.

The largest impairment charge in the Financial Statements relates to the charge on confiscation orders, this reflects the complexity and difficulty in enforcing payment where assets may have been hidden or held overseas. The total value of debt estimated to be recoverable as at 31 March 2018 is £644million (2016-17: £556million). This is compared to the value of cash collected in the year in the chart below.



Confiscation Orders

Confiscation orders are the principal means by which the government carries out its policy to deprive criminals of the proceeds of their crimes. They are used with the intention to disrupt and deter criminality. Orders are set at the value of the criminal benefit unless the defendant can prove that they do not have the assets, in which case it is set at the level of assets assessed to be available.

If a defendant does not pay the order by the due date then a prison sentence is imposed and the outstanding debt accrues interest at a rate of 8% per annum.

In 2017-18, confiscation orders amounting to £195million were issued. Of these 7.5%, £14.7million in value were for less than £25,000, with 70% and £10.3million being collected from this cohort. As can be seen a high proportion of this lower value confiscation order debt has been collected in the year.

In higher value orders, it is very often the case that a significant proportion of the order value relates to assets which are either hidden or held overseas, making enforcement very difficult. When assets have been identified the process of seizing and liquidating assets e.g. houses and jewellery, can be a costly and lengthy

process. This results in debt being open and uncollected for a considerably long period of time.

The gross value of confiscation order debt as at 31 March 2018 is £1,961million (2016-17: £1,814million) and has been impaired for accounting purposes to a net present value of £152million (2016-17: £128million), which is the estimate of the amount that is ultimately collectable. This is the most significant impairment as a proportion of outstanding debt in the HMCTS Trust Statement.

The reasons for the high impairment charge are linked to the nature of the debt and the aim of depriving criminals of their assets. Orders are regularly set at levels which account for assets that the court believe that the defendant has hidden, given

away or moved overseas. The application of the interest charge to an account which is already overdue and unpaid increases the debt balance daily. From an accounting perspective these assets are heavily impaired as the probability of recovery in the short to medium term is low. Furthermore, it is not possible to write off confiscation order debt, it can only be cancelled by a court. This is called a judicial cancellation and is used in very specific circumstances, such as on the death of a defendant. The power to apply to discharge accounts where the defendant is deceased was introduced in June 2015.

Confiscation order debt can be broken down into some of these categories as follows:

	2017-18 £000	2016-17 £000
Interest (historically challenging to enforce)	657,595	568,067
Assets assessed as hidden with no other assets against which enforcement action can be taken.	432,800	359,078
Offenders deceased, deported or cannot be located	167,982	169,122
Orders subject to appeal and cannot be enforced	16,129	12,661
Assets overseas	10,596	7,766
Sub-total	1,285,102	1,116,694
Remaining confiscation order balance	676,176	698,124
Total outstanding debt	1,961,278	1,814,818

The Remaining confiscation order balance includes orders where enforcement activity is ongoing, although as reported, it is likely some of the value will be identified as hidden or overseas, making recovery very difficult.

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

Future developments and initiatives

Transforming Compliance and Enforcement Programme

Ministers have previously set out the importance of reforming HM Courts & Tribunals Service to provide a modern and efficient service for society. Improving compliance and enforcement services will continue to form a key part of that work, with HM Courts & Tribunals Service working to deliver a transformed service.

The programme of change set up to design and deliver this transformation is a significant opportunity to increase both the level of collections and the efficiency of the collections service through a compliance and enforcement operation which is: Timely; Tailored; and Tough. The approach focuses on developing a service which encourages compliance – through the use of behavioural insights and data analytics to design and implement more effective collection strategies.

Underpinning a new operational design will be new debt management and finance accounting systems to replace the existing outdated technology. This will support automated data verification, with HMCTS seeking to validate information both at an earlier stage and then throughout the process. New trace and locate functions should enhance the ability to both encourage and, when necessary, enforce payment. The new processes will also be intelligence led, meaning that more information about individuals will be available to support the decision-making process, enabling tailored compliance pathways to suit individual circumstances. By using intelligence in this way, triggers for compliance will be identified and built into future business processes, providing continuous service improvement.

Historic Debt

HM Courts and Tribunals Service has set up the Historic Debt Project to tackle outstanding debt which has accumulated over the years from unpaid criminal fines and financial impositions where debtors could not previously be traced.

HM Courts and Tribunals Service has utilised an external third party to validate its existing data. This has included credit reference checks, which enabled the enhancement of the quality and amount of information that is held on each account. This has also enabled the segmentation of accounts to ensure appropriate steps are taken on a case by case basis.

With the benefit of this new intelligence and tracing tools, outstanding debts are being chased by a dedicated team in the National Compliance and Enforcement Service.

Since the project commenced, debtors across England and Wales have been contacted by letters and text messages from the Historic Debt Team, chasing payment of fines and impositions for past offences. To date significant sums have been collected, including compensation that is owed to victims of crime.

Susan Acland-Hood

Chief Executive and Accounting Officer

10 July 2018

Section 3: Our controls and governance



Accounting Officer's responsibilities

Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed HMCTS to prepare a Trust Statement for each financial year 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 collection of fines, penalties, costs awarded by the courts, compensation ordered by the courts, confiscation orders and the associated revenue, expenditure and cash flows for the financial year.

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- have taken all steps that ought to have been taken to make herself aware of any relevant audit information and to establish that the entity's auditors are aware of that information, and that they are not aware of any relevant audit information of which the entity's auditors are unaware of
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the statement

- prepare the statement on a going concern basis, and
- confirm that the Trust Statement as a whole is fair, balanced and understandable and take personal responsibility for the Trust Statement and the judgements required for determining that it is fair, balanced and understandable.

HM Treasury has appointed the Permanent Secretary of MoJ as Principal Accounting Officer of the Department. The Chief Executive of HMCTS holds the role of Accounting Officer for the purposes of the Trust Statement.

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 HMCTS's assets, are set out in Managing Public Money published by the HM Treasury.

Auditors

The Trust Statement is audited by the Comptroller and Auditor General under Section 7(4) of the Government Resources and Accounting Act 2000. The C&AG's fee for the audit of the 2017-18 Trust Statement was £100,000 (2016-17: £100,000). This is charged on a notional basis and recognised in the HM Courts & Tribunals Service Annual Report and Accounts 2017-18.

So far as I am aware, there is no relevant audit information of which the auditors are unaware. I have taken all steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

Governance Statement

Introduction

HMCTS is an agency of the Ministry of Justice (MoJ). Our key aim is to run an efficient and effective courts and tribunals system which enables the rule of law to be upheld and provides access to justice for all. The organisation operates in accordance with our published Framework Document which sets out the basis of an operating partnership between the Lord Chancellor (Secretary of State for Justice), the Lord Chief Justice and the Senior President of Tribunals.

As Chief Executive I am responsible for the day-to-day operations and administration of the agency and leadership of its employees. I work under the general direction of the HMCTS Board. As Chief Executive and Accounting Officer I am accountable to the MoJ Permanent Secretary and Principal Accounting Officer and ultimately to Parliament.

As Accounting Officer, and working together with my directors, I have responsibility for maintaining effective governance and a sound system of internal control that supports the achievement of HMCTS policies, aims and objectives, while safeguarding the public funds and assets for which I am personally accountable. Overall, I am satisfied that HMCTS has had effective governance, risk management and internal controls in place during 2017-18. I take personal responsibility for the Trust Statement and the judgements required for

determining that it is fair, balanced and understandable.

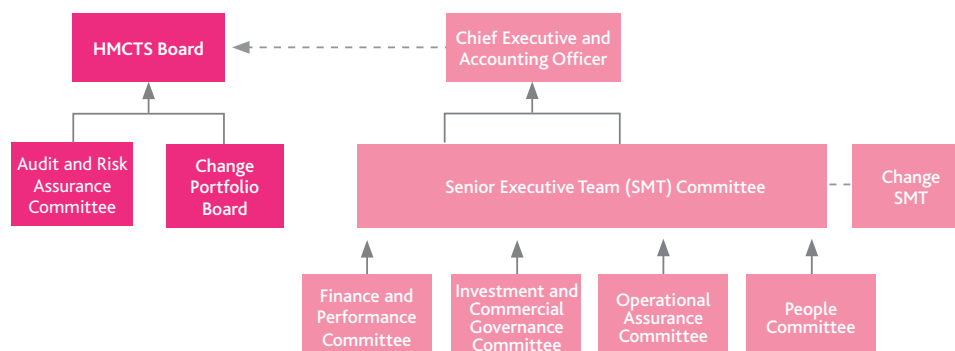
Governance framework and management structure 2017-18

Governance within HMCTS is delivered through a robust board and executive team as set out in the Delegation of Authority Policy. In 2017-18, this was as shown in the chart below:

The Customer and Stakeholder Engagement Committee was defined during 2017-18 as a sub-committee of the Senior Management Team, and will have its first meeting in early 2018-19.

Corporate governance in central government departments – code of good practice

This code applies to MoJ directly and HMCTS has adopted key principles as best practice. We remain compliant with material requirements with the exception of the Nominations Committee as reported in previous years. We have a People Committee with the responsibility for considering talent and succession planning within the organisation. In addition, the HMCTS Board discussed performance and talent management for our senior executives at their May 2018 meeting. Governance arrangements for the organisation are overseen by the Audit and Risk Assurance Committee and the HMCTS Board as well as by the executive team on a day-to day-basis.



Principal systems and controls

There are two main systems used to account for transactions relating to fines, fixed penalties and confiscation orders – LIBRA and Pentip. LIBRA is a case management system which is used to record all transactions except those relating to fixed penalties, which are recorded on Pentip. Pentip is owned and managed by the Home Office (HMCTS is a member of the Pentip executive committee) and used by Police forces in England and Wales to record penalty notices and by HMCTS to record receipt of payments.

Both systems operate under a comprehensive control framework. The main features of the control framework are described below.

- Segregation of duties and controlled system access.
- Standard operating procedures for all key processes.
- Monthly and quarterly verification of all system control totals.
- Verification of cash balances by completion of daily, monthly and quarterly reconciliations.

There have been no significant control breaches during the year.

Risk management

We introduced our risk policy in May 2017 by way of the HMCTS risk strategy. The strategy sets out how HMCTS should manage the risks associated with the delivery of our strategic priorities as well as providing new tools and robust guidance to support the management of risk on a day-to-day basis.

The strategy was embedded throughout HMCTS during the summer of 2017, with each business area using the new Risk Register and tolerance levels to manage

and escalate risks more appropriately. For 2018-19 the strategy will be renewed, taking into account any lessons learned and supporting HMCTS to embed a more mature risk management process.

Risk assessment 2017-18

In line with the HMCTS risk strategy, the Senior Management Team (SMT) held a risk workshop at the beginning of the year to identify the risks to the delivery of our priorities. Risks were defined with agreed controls and mitigation before being approved by the HMCTS Board. SMT held formal reviews each month throughout the year where the corporate risks were considered as well as any emerging issues. This approach enabled us to ensure that the most significant risks were proportionately monitored and steps taken at an early stage should the risk change.

Key successes as a result of this proactive approach include:

- Significant updates to our people and communications risks enabled a greater focus on the causes and effects, which in turn allowed us to focus our risk management activity more effectively. Separating our people risk to look at current recruitment and attrition, and end state capability has enabled us to identify and manage the causes which represent the greatest impact/likelihood. This targeted approach has meant that we were able to bring forward mitigation which would make a real difference, such as the accelerated development programme (May 2017) and improvements around recruitment and the support given. This led to some decisive steps within the business and supported operational delivery.
- The identification and addition of new risks which warranted escalation to the HMCTS Corporate risk register including risks relating to the maintenance of our estates in September 2017 and relating to the new General Data Protection Regulation in January 2018.

- The risk of disruption resulting from the implementation of the Technology Transition Programme, reported in this statement last year reduced to the extent that we were able to close this risk on the register at the end of 2017-18. This is as a result of collaborative working across the Ministry and an effective and engaged approach to project management to ensure delivery of the programme to within tolerance.

A key element of the risk strategy is a requirement to review all risks at year end, identify risks and issues to carry forward into 2018-19 and formally close the year's risk register. This took place through a workshop in March 2018 with all open risks being carried over.

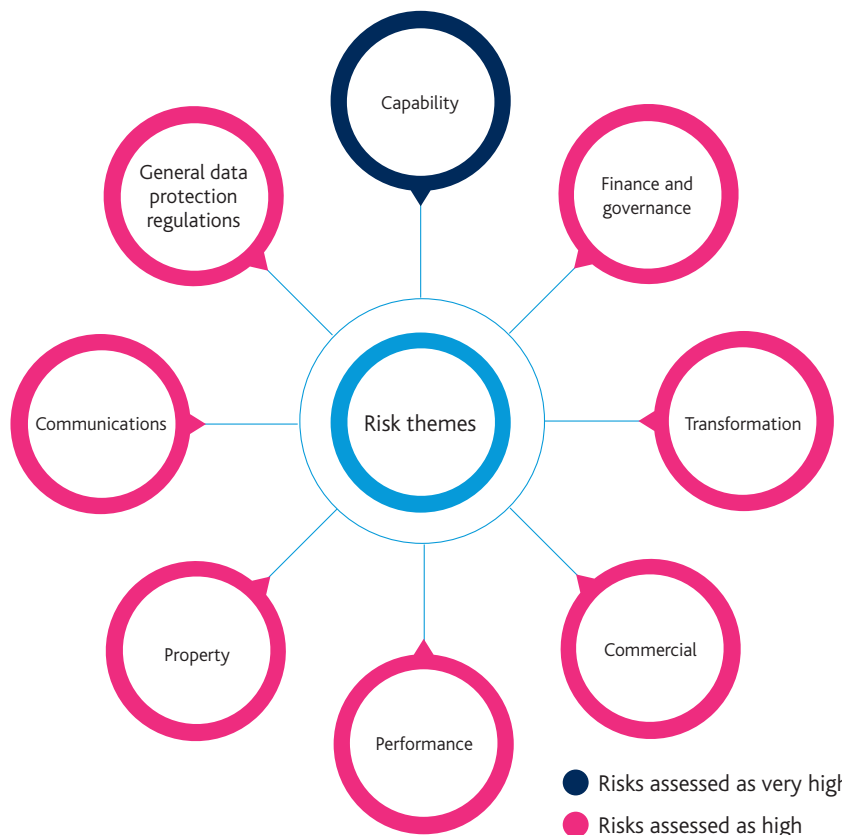
Top risks

We have continued to manage our top risks during the 2017-18, through regular checking and challenging.

At the start of the financial year there were no 'very high' risks and nine 'high' risks. At the end of the year one risk had moved to 'very high' whilst the number of 'high' risks remained the same. Although this represents an increase in most significant risks, this was against the backdrop of an overall reduction in risks being managed at a corporate level from 18 to 14.











During the year six risks were closed and removed from the register, and eight new risks added as they were identified during the course of the year, including separating out of our 'high' risks to enable more focus on the individual elements of the risk and the addition of a new risk relating to the implementation of the General Data Protection Regulation (GDPR).

Whilst risks were managed individually, they reflected the key priorities and cross cutting activities which took place throughout HMCTS and have therefore been grouped into the following headline themes:



Key				
Relation of risk to key priorities	Modern technology	Modern settings	Modern capability	Relates to all three priorities
Risk movement	Risk increase	Risk decrease	No risk movement	Risk at target

Risk themes	Risk movement	Key activities to manage our risks
Capability (two risks) HMCTS struggle to maintain a capable workforce leading up to and following delivery of the transformation programme	Risks have stayed as 'very high' since being added in December 2017	<ul style="list-style-type: none"> • By ensuring effective focus on business as usual and change activities to deal with current and end state capabilities. • By having regular engagement with the business through the delivery of One Conversation 3. • By delivering key products such as a recruitment hub, to support operational delivery. • We expect to meet their 'medium' target score in 2018-19.
Finance and governance (two risks) HMCTS must be fully compliant with financial and security standards	Risks have increased from 'medium' to 'high' in September 2017	<ul style="list-style-type: none"> • A focus on benefits realisation has helped to secure our transformation goal and a new accounting system has created a more stable financial solution to ensure compliance with the standards. • Effective delivery of security and safety is a specific risk and managed at all levels of the business but continues to be a concern. • This year we have introduced more streamlined policies and arrangements, appointed a third party security company to work with us and our providers to improve search on entry procedures and bolstered the security and safety compliance capability through the National Security and Safety Committee.
Transformation (one risk) HMCTS does not deliver transformation programme to cost/time schedule	Risk fluctuated between 'high' in June 2017 and 'very high' in January 2018.	<ul style="list-style-type: none"> • Risk increased through the year from a 'medium' risk to a 'very high' risk to ensure it more accurately reflects the level of exposure as more reform projects are active. The risk will continue to be managed at 'very high' in 2018-19, with particular focus on the transition of individual projects and programmes into business as usual activity. • This is overseen by the Change Portfolio Board chaired by the Chief Executive, to ensure risks and opportunities are identified appropriately.

Risk themes	Risk movement	Key activities to manage our risks
<p> Commercial (one risk) HMCTS does not conduct commercial and inter-government activity in line with internal/external policy to enable effective and lawful commercial activity</p>	<p> Risk has remained at its target throughout.</p>	<ul style="list-style-type: none"> • Detailed testing to confirm supplier failure contingency measures have ensured this risk has remained at its target score of 'high'. • Targeted action around third party risks has been subject to specific scrutiny by the executive, ARAC and across MoJ to ensure requirements are met. • Implemented an Investment and Commercial Governance Committee to ensure contract compliance and hold business owners to account. • This risk will be closed and replaced with a new commercial risk focussing on market place failures.
<p> Performance (one risk) HMCTS does not deliver satisfactory performance across all jurisdictions</p>	<p> Risk has remained at 'high' all year</p>	<ul style="list-style-type: none"> • Strengthened our analytical capability. • We have in place a quarterly review process to ensure supply and demand is closely monitored. • We continue to work with the judiciary to ensure a clear understanding of jurisdictional requirements. • Introduced the Operational Assurance Committee to support and challenge operations to drive continuous improvement.
<p> Property (one risk) HMCTS fails to maintain our estate for the benefit of employees and citizens.</p>	<p> Risk has remained at 'high' since being added in December 17</p>	<ul style="list-style-type: none"> • The condition of our court rooms is key to maintaining a positive user experience. Improved financial planning allowed us to prioritise improvements and spend our budget with the greatest effect.
<p> Communications (one risk) HMCTS fails to properly engage with internal and external stakeholders</p>	<p> Risk has remained at 'medium' since being added in February 2018</p>	<ul style="list-style-type: none"> • A refocus of the risk took place to ensure it embraced business as usual and transformation. • Delivered a series of legal professional roadshows. • Put in place a stakeholder focused engagement plan.
<p> GDPR (one risk) HMCTS does not effectively manage the introduction of the GDPR regulation</p>	<p> Risk has remained at 'high' since being added in February 2018</p>	<ul style="list-style-type: none"> • Risk added in February 2018 to ensure we achieve a level of compliance, consistent with MoJ. We have worked to raise awareness, and taken steps to improve the way we handle performance information in collaboration with MoJ to ensure the risk is effectively managed.

Managing the risk of fraud, bribery and corruption

Moj has zero tolerance on fraud, bribery and corruption, whether involving its own employees, or other external individuals or bodies. We have clear policies which set out responsibilities for the prevention, detection and reporting of fraud, bribery and corruption, and applies to all staff within Moj.

HMCTS has a dedicated fraud and investigations team who proactively and reactively work with the business to manage the risk of fraud, bribery and corruption. HMCTS received three reports of bribery and corruption during 2017-18, of which two were referred to the Police for consideration of criminal prosecution. A full thematic review of the process relating to the third referral is being undertaken. This area of criminal activity will be a focus for 2018-19.

A new delivery model was introduced in HMCTS in April 2017 which focuses on an intelligence led, risk based approach. This ensures the function is responsive to emerging themes and vulnerabilities. Working more closely with governance, risk and operational colleagues, root cause analysis of incidents is central to all investigations, and mitigation is put in place with operations to safeguard against similar incidents and to learn lessons. Significant improvements in evidence gathering and reporting have also been embedded within the function. Investigation reports now align with defined Cabinet Office fraud approach, whilst intelligence gathered internally identifies hotspots of referrals and investigations.

HMCTS has strengthened our ability to meet the Cabinet Office cross-government fraud functional standards assessment, which measures an organisation's readiness to combat fraud and criminality against 11 specific standards. The inaugural assessment in March 2018 revealed readiness against nine standards for HMCTS. In 2018-19 we will work to strengthen the remaining standards.

To ensure we manage the risk of fraud, bribery and corruption, HMCTS delivered a programme of fraud awareness sessions and bespoke process assessments with project teams within reform. This has helped reduce the threat of fraud and criminality by building in controls early during programme builds, rather than undertake difficult, retrospective fixes.

For the forthcoming year, HMCTS will build on foundation work to further support change and reform projects. Priorities include the revision of the counter fraud strategy, build on Cabinet Office directives, and a focus on fraud awareness and staff integrity issues.

Our approach to 'whistleblowing'

Moj's whistleblowing policy encourages employees to raise concerns about wrongdoing, advises on the protection afforded to whistle-blowers, and provides reassurance that concerns will be investigated responsibly and professionally. There are currently six whistleblowing Nominated Officers across the department and all are of senior management grade. There were five whistleblowing cases reported by HMCTS during 2017-18. Complaints of harassment, bullying and discrimination are reported separately under the department's grievance policy.

It is within the terms of reference for the HMCTS Audit and Risk Assurance Committee to oversee and hold HMCTS to account on its effectiveness and adherence to the whistleblowing policy.

Our approach to information security

HMCTS deal with sensitive personal information on behalf of people involved in hearings and we take our responsibility very seriously to ensure this information is appropriately protected. Our policy is to self-refer all significant data incidents to the Information Commissioner's Office (ICO) and we continue to work closely with the ICO and other agencies to further improve our systems and learn lessons. Compliance with the new GDPR has led to the formation of a dedicated GDPR project team working alongside the information assurance (IA) function. The team are working closely with MoJ colleagues and the ICO on common issues as well as sharing best practice with other government departments.

The annual mandatory IA training was completed in March 2018 with a completion rate of 92% across HMCTS employees. The outstanding 8% were either on career break, maternity or long term sick. In addition to this, over 50 hours of face-to-face data security training was delivered during reporting year 2017-18 to approximately 750 employees, to ensure that HMCTS employees build upon the great strides that have been made to proactively combat data incidents. The security training focuses on how to identify an incident and how to report it. We report

on all incidents and we have a culture that understands the importance of information assurance and security, which has prepared us well for GDPR. IA returns during 2017-18 indicated that there was further improvement in the level of IA maturity overall, proportionate to the level of data HMCTS handles. A reduction in reported data incidents of 23%, should be noted and is attributable to the increase in digital services, increased IA awareness and training

There were 2,239 data incidents during 2017-18, of which 7 were reported to the ICO. Of the 7 reported, no action was taken against HMCTS and the remaining incidents were all low impact. HMCTS is one of the few departments that is still 'paper-based' particularly in the tribunals. 44% (983) of closed incidents were identified, through root cause analysis, as 'not at fault' incidents but external events such as incorrect information supplied to HMCTS and of these incidents 80% (786) are the loss of driving licences (by Royal Mail). 56% (1254) of 'at fault' incidents are in respect of unauthorised disclosures caused by staff errors, for example, enclosing two pieces of data in the same envelope or issuing data to the wrong address.

HMCTS now has a technical architecture team, supported by '6point6', a specialist cyber security consultancy, to manage the technical risks and issues associated with our systems and applications and establish improved processes and procedures in support of the transition to becoming a fully digital business.

Governance and risk assurance oversight arrangements

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of my executive managers. They have the responsibility for the development, maintenance and reporting of the internal control framework. This, combined with observations and recommendations made by internal and external auditors in their management letters and other reports has shaped the HMCTS approach to governance and assurance.

The organisation has in place control processes to provide executive management with assurance over financial and operational risks. These processes are subject to continuous improvement and review to ensure they remain current, effective and relevant.

Compliance reporting and standard controls operate throughout the organisation with quarterly assurance reporting arrangements in place to report and escalate significant issues and risks to the next management layer when appropriate.

In addition, the HMCTS Board and I gain assurance through:

- up-to-date and comprehensive reports on performance and finance at all board meetings by the executive
- financial and administrative procedures which includes delegations of financial authority and segregation of duties on key financial processes
- assurances from MoJ for the provision of shared services

- Audit and Risk Assurance Committee (ARAC) overseeing the adequacy and effectiveness of the risk management processes and the system of internal control for the organisation (the committee regularly reviews governance and assurance reports, the corporate risk register, undertakes deep dives on our key risks and oversees the production of our annual report and accounts, as does the executive and HMCTS Board)
- regular reviews of the risk profile and effectiveness of the systems of internal control through the receipt of minutes from ARAC, through review of performance reports and through direct feedback from the chair of the committee
- internal audit reports (see below)
- value for money and other reports produced by the National Audit Office

Inter-agency accountability

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

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

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

Similarly, I am responsible under the Proceeds of Crime Act 2002 for the collection of confiscation orders. I maintain effective systems of control in the courts and offices which operate as part of my organisation. However, the end-to-end system of controls and reporting for confiscation orders includes areas for which I have no responsibility. In particular, the Home Office bear overall responsibility for policy.

Internal audit and annual audit opinion

One of the key sources of independent assurance comes from the activities of the internal audit service provided by the Government Internal Audit Agency (GIAA). The internal audit programme is closely linked to the key risks for HMCTS and arrangements are in place to ensure that I am made aware of any significant issues which indicate that key risks are not being effectively managed.

The Group Head of Internal Audit provided an annual overall opinion of 'moderate' for 2017-18, highlighting that some improvements are required to further enhance the adequacy and effectiveness of the framework of governance, risk management and control. A number of areas of concern have been highlighted, including controlling access to information and data security.

GIAA have also considered the delivery confidence level for the HMCTS Reform Programme which has improved to Amber, acknowledging the complexity of the delivery landscape and associated dependencies.

National Audit Office Reports

No new reports on HMCTS have been received during 2017-18. However, NAO have undertaken a review into our progress in transforming courts and tribunals during the year and published their report in May 2018. We welcomed all the recommendations and are committed to implementing them. Our response to the report can be viewed at <https://www.gov.uk/government/news/hmcts-response-to-national-audit-office-report-on-court-reform-programme>

Conclusion

I am satisfied that we have effective governance, risk management and assurance arrangements in place as set out in this statement. Arrangements are kept under continuous review to adapt to our changing risk environment.

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

Susan Acland-Hood

Chief Executive and Accounting Officer

10 July 2018

Section 3

Our controls and governance

Section 4: External scrutiny



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

Opinion on financial statements

I certify that I have audited the Trust Statement of Her Majesty's Courts and Tribunals Service (HMCTS) for the year ended 31 March 2018 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Revenue and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- the HMCTS Trust Statement gives a true and fair view of the state of affairs as at 31 March 2018 and of the net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

In my opinion, in all material respects the income and expenditure 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.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the HMCTS in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accounting Officer for the audit of the financial statements

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000.

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the HMCTS's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the HMCTS's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure 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.

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the sections 'Introduction to the Trust Statement', 'Business overview' and 'Our controls and governance'. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the information given in the sections entitled 'Introduction to the Trust Statement', 'Business overview' and 'Our controls and governance' for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General
17 July 2018

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

Section 5: Our expenditure



Statement of Revenue and Expenditure for the period ended 31 March 2018

	Notes	2017-18 £000	2016 -17 £000
Impositions revenue			
Fines and penalties			
Court fines		355,773	362,490
Miscellaneous receipts		4,758	6,374
Criminal court charge (remissions) / impositions		(1,477)	(2,147)
Fixed penalty notices		99,155	103,517
Crown prosecutors' costs		34,978	37,373
Prosecutors' costs		92,448	92,270
Compensation		35,579	46,021
Confiscation orders		284,602	209,390
Victim surcharge		46,603	44,785
Total impositions revenue		952,419	900,073
Less expenditure			
Credit losses	2	161,514	188,112
Total expenditure		161,514	188,112
Less disbursements			
Revenue retained by the Ministry of Justice	3	392,485	369,894
Prosecutors' costs for the Crown Prosecution Service		33,953	33,173
Prosecutors' costs		82,932	76,794
Compensation for other parties		29,540	45,192
Confiscation orders for Home Office		161,877	94,100
Victim surcharge for the Ministry of Justice		46,658	34,825
Total disbursements		747,445	653,978
Total expenditure and disbursements		908,959	842,090
Net revenue for the Consolidated Fund	6	43,460	57,983

Statement of Financial Position as at 31 March 2018

	Notes	2017-18 £000	2016 -17 £000
Current assets			
Receivables	4	644,318	555,562
Cash at bank – fines & other impositions		118,805	76,628
Cash at bank – fixed penalties		20,608	29,114
Total assets		783,731	661,304
Current liabilities			
Payables	5	449,459	370,492
Total liabilities		449,459	370,492
Total net assets		334,272	290,812
Represented by:			
Balance on Consolidated Fund	6	334,272	290,812

Susan Acland-Hood

Chief Executive and Accounting Officer

10 July 2018

The notes on pages 37 to 48 form part of this statement.

Statement of Cash Flows for the period ended 31 March 2018

	Notes	2017-18 £000	2016 -17 £000
Net cash inflow / (outflow) from operating activities	7	33,671	40,496
Cash paid to the Consolidated Fund	6	-	-
Increase / (decrease) in cash in the period		33,671	40,496

Analysis of changes in net funds

	2017-18 £000	2016 -17 £000
Net funds at beginning of period – 1 April	105,742	65,246
Net funds at end of period – 31 March	139,413	105,742
Increase / (decrease) in cash in the period	33,671	40,496

The following balances as at 31 March were held at:

	2017-18 £000	2016 -17 £000
Government Banking Service	137,145	105,148
Commercial banks	2,268	594
Total cash balances	139,413	105,742

The notes on pages 37 to 48 form part of this statement.

Notes to the Trust Statement

1. Statement of Accounting Policies

The Trust Statement is prepared in accordance with:

- the 2017-18 Financial Reporting Manual (FReM) issued by HM Treasury, in particular Chapter 8.2 which deals with Consolidated Fund revenue and Trust Statements. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as interpreted for the public sector.
- the 2017-18 accounts direction issued by HM Treasury on 19 December 2017 under section 7(2) of the Government Resources and Accounts Act 2000.

The particular policies adopted in the Trust Statement are described below. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1. Basis of preparation

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

The preparation of the accounts in conformity with IFRS requires the use of certain critical accounting estimates (see note 1.9). It also requires management to exercise its judgement in the process of applying the accounting policies.

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

1.2. Changes in accounting policy and disclosures

a) Changes in accounting policies

There have been no changes in accounting policies for the period ended 31 March 2018.

b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2017 and not early adopted

IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments.

IFRS 15 and IFRS 9 are not expected to have a material impact on HMCTS' future accounts.

1.3. Revenue recognition

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

1.4. Expenditure

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

1.5. Disbursements

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

1.5.1 MoJ specific disbursements

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

Revenue retained towards the cost of collection and administration

Retention comprises of the criminal court charge which was an additional financial imposition designed to recover some of the costs of the criminal court from those convicted of an offence and was introduced in the Criminal Justice and Courts Act 2015. On 3 December 2015 the Secretary of State laid a statutory instrument with the effect that from 24 December 2015 the criminal court charge would no longer be imposed. All charges imposed up to that point are still payable and the retention due to the MoJ is based on receipts collected in the period.

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

Revenue retained for Victims' Services

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

Revenue retained under Spending Round settlements

As part of the Spending Round 2015 settlement for the financial year ended 2017-18 HM Treasury has permitted the MoJ to retain collections from fines, criminal court charge and fixed penalty impositions. The amount permitted to be retained by MoJ in 2017-18 and 2016-17 is within an overall departmental income cap.

1.6. Net revenue for the Consolidated Fund

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

1.7. Receivables

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

The fair value of receivables is determined by making an impairment to reduce the carrying value of receivables to the net present value of the estimated future flow of repayments discounted at HM Treasury's interest rate, currently 3.7% (2016-17: 3.7%).

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

1.8. Payables

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

1.9. Critical accounting judgements and estimates

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

When preparing the Trust Statement, HMCTS makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Impairment of debt and credit losses

Receivables are shown net of impairments in accordance with the requirements of the FReM and IAS 39. The fair value of receivables is determined by making an impairment to reduce the carrying value of receivables to the net present value of the estimated future flow of repayments discounted at the interest rate set by HM Treasury. The fair value of receivables is dependent on ongoing collection rates as well as the discount rate used in the valuation. The current year's impairment has been calculated based on a review of specific high value receivables combined with a collective assessment for all other debt. The collective impairment assessment is based on an analysis of past collection history projected forward to provide a payment stream which is then discounted back at the Treasury rate of 3.7% (2016-17: 3.7%) to calculate the net present value.

A sensitivity analysis of the key assumptions inherent in the impairment calculation is included in note 8 to these Financial Statements.

2. Credit losses

	Notes	2017-18 £000	2016 -17 £000
Debts (written back) / off	2.1	(61,113)	(24,080)
Increase / (decrease) for year in impairment of receivables	4	222,627	212,192
Total		161,514	188,112

2.1 Debts (written back) / off

	2017-18 £000	2016 -17 £000
Court fines	(44,441)	(17,725)
Criminal court charges	259	61
Crown prosecutors' costs	(4,549)	(1,334)
Prosecutors' costs	(8,907)	(3,784)
Compensation	(1,238)	(509)
Victim surcharge	(2,237)	(789)
Total	(61,113)	(24,080)

Debts written off are the amounts reportable to Parliament under rules on disclosure of losses and write-offs in Managing Public Money Annex A.4.10.24. under the category of 'Claims waived or abandoned'. There were no individual amounts over £300,000 included in debts written off in either 2017-18 or 2016-17.

There are no other losses or special payments reportable.

3. Revenue retained by the Ministry of Justice

	2017-18 £000	2016 -17 £000
Revenue retained by MoJ towards the cost of collection and administration:		
Criminal court charges	5,001	11,963
	5,001	11,963
Fixed penalty revenue retained by MoJ for Victims' Services:		
Retained from fixed penalties for motor offences	30,000	30,000
Retained from fixed penalties for PNDs	125	174
Victim surcharge	30,125	30,174
Revenue retained by MoJ under Spending Round settlements:		
Retained from fine collections	286,116	255,971
Retained from fixed penalty collections	71,243	71,786
	357,359	327,757
Total	392,485	369,894

4. Receivables

	Due to Consolidated Fund and third parties										Due to Home Office		Total £000	
	Compensation £000	Victim surcharge £000	Prosecutors' costs £000	Prosecutors' costs £000	Crown prosecutors' costs £000	Fines £000	Criminal court charges £000	Fixed penalty notices £000	Confiscation orders £000					
2017-18														
Impositions outstanding														
At 1 April 2017	79,132	50,657	114,030	61,051	504,754	39,320	25,857	1,814,818					2,689,619	
New impositions	35,579	46,603	92,448	34,978	355,773	(1,477)	99,155	195,075					858,134	
Confiscation order interest								89,527					89,527	
Collections	(29,620)	(35,022)	(74,478)	(32,401)	(281,359)	(5,001)	(101,368)	(138,142)					(697,391)	
Written back / (written-off)	1,238	2,237	8,907	4,549	44,441	(259)		-					61,113	
At 31 March 2018	86,329	64,475	140,907	68,177	623,609	32,583	23,644	1,961,278					3,001,002	
Impairment														
At 1 April 2017	36,801	33,549	63,128	35,198	245,843	33,276	-	1,686,262					2,134,057	
Increase/(decrease) for the year	7,277	2,182	18,423	5,574	74,899	(8,453)	-	122,725					222,627	
At 31 March 2018	44,078	35,731	81,551	40,772	320,742	24,823	-	1,808,987					2,356,684	
Receivables Net Book Value at 31 March 2018	42,251	28,744	59,356	27,405	302,867	7,760	23,644	152,291					644,318	
Receivables Net Book Value at 31 March 2017	42,331	17,108	50,902	25,853	258,911	6,044	25,857	128,556					555,562	

4.1. Confiscation order debt – value banding by lead agency

	HMCTS £000	SFO £000	CPS £000	2017-18 Total £000	HMCTS £000	SFO £000	CPS £000	2016-17 Total £000
Gross debt								
Up to £250,000	213,210	36	46,804	260,050	205,765	456	47,072	253,293
£250,001 – £500,000	119,194	1,229	38,808	159,231	105,517	2,298	36,641	144,456
£500,001 – £1,000,000	167,075	2,504	57,570	227,149	154,260	2,450	54,083	210,793
Over £1,000,000	699,484	142,681	472,683	1,314,848	641,069	144,718	420,489	1,206,276
Total gross debt	1,198,963	146,450	615,865	1,961,278	1,106,611	149,922	558,285	1,814,818
Impairment								
Up to £250,000	185,383	29	30,363	215,775	182,650	406	33,648	216,704
£250,001 – £500,000	111,072	1,131	29,584	141,787	99,558	1,947	27,769	129,274
£500,001 – £1,000,000	160,204	2,354	46,922	209,480	147,006	2,130	44,380	193,516
Over £1,000,000	692,967	139,728	409,250	1,241,945	631,878	138,511	376,379	1,146,768
Total impairment	1,149,626	143,242	516,119	1,808,987	1,061,092	142,994	482,176	1,686,262
Net book value								
Up to £250,000	27,827	7	16,441	44,275	23,115	50	13,424	36,589
£250,001 – £500,000	8,122	98	9,224	17,444	5,959	351	8,872	15,182
£500,001 – £1,000,000	6,871	150	10,648	17,669	7,254	320	9,703	17,277
Over £1,000,000	6,517	2,953	63,433	72,903	9,191	6,207	44,110	59,508
Total net book value	49,337	3,208	99,746	152,291	45,519	6,928	76,109	128,556

The total gross debt is made up of 11,240 cases, of which: 10,282 (91.5%) are of value up to £250,000; 420 (3.7%) are between £250,001 – £500,000; 280 (2.5%) are between £500,001 – £1,000,000, and; 258 (2.3%) are over £1,000,000.

4.2 Confiscation order debt – aged debt profile by lead agency

	HMCTS £000	SFO £000	CPS £000	2017-18 Total £000	HMCTS £000	SFO £000	CPS £000	2016-17 Total £000
Gross debt				130,141				103,014
0 – 1 year	56,976	-	73,165	130,141	48,069	7,893	47,052	103,014
1 – 2 years	25,542	6,719	45,348	77,609	66,522	128	178,878	245,528
2 – 5 years	159,588	1,423	261,017	422,028	167,595	44,768	130,489	342,852
Over 5 years	956,857	138,308	236,335	1,331,500	824,425	97,133	201,866	1,123,424
Total gross debt	1,198,963	146,450	615,865	1,961,278	1,106,611	149,922	558,285	1,814,818
Impairment								
0 – 1 year	27,938	-	23,896	51,834	25,877	3,277	22,740	51,894
1 – 2 years	21,456	4,472	35,173	61,101	59,815	-	159,307	219,122
2 – 5 years	150,110	1,024	238,325	389,459	159,385	42,920	119,876	322,181
Over 5 years	950,122	137,746	218,725	1,306,593	816,015	96,797	180,253	1,093,065
Total impairment	1,149,626	143,242	516,119	1,808,987	1,061,092	142,994	482,176	1,686,262
Net book value								
0 – 1 year	29,038	-	49,269	78,307	22,192	4,616	24,312	51,120
1 – 2 years	4,086	2,247	10,175	16,508	6,707	128	19,571	26,406
2 – 5 years	9,478	399	22,692	32,569	8,210	1,848	10,613	20,671
Over 5 years	6,735	562	17,610	24,907	8,410	336	21,613	30,359
Total net book value	49,337	3,208	99,746	152,291	45,519	6,928	76,109	128,556

The total debt is made up of 11,240 cases, of which: 1,969 (17.5%) are between 0 – 1 years old; 998 (8.9%) are between 1 – 2 years old; 3,410 (30.4%) are between 2 – 5 years old, and; 4,863 (43.2%) are over 5 years old.

5. Payables

	On which cash received £000	2017-18 On which cash receivable £000	Total £000
Confiscation orders (Home Office)	28,103	152,291	180,394
Prosecutors' costs (including CPS costs)	696	86,761	87,457
Compensation	8,811	42,251	51,062
Victim surcharge	8,982	28,743	37,725
Fines and fixed penalty receipts payable to MoJ	84,591	-	84,591
Other	8,230	-	8,230
Total	139,413	310,046	449,459

	On which cash received £000	2016 -17 On which cash receivable £000	Total £000
Confiscation orders (Home Office)	27,087	128,556	155,643
Prosecutors' costs (including CPS costs)	683	76,755	77,438
Compensation	5,828	42,331	48,159
Victim surcharge	11,099	17,108	28,207
Fines and fixed penalty receipts payable to MoJ	55,556	-	55,556
Other	5,489	-	5,489
Total	105,742	264,750	370,492

The analysis in the above tables has been amended when compared to previous years to provide improved information on the creditor structure.

6. Balance on the Consolidated Fund account

	2017-18	2016 -17
	£000	£000
Balance on the Consolidated Fund at 1 April	290,812	232,829
Net Revenue for the Consolidated Fund	43,460	57,983
Less: amount paid to the Consolidated Fund		-
Balance on the Consolidated Fund at 31 March	334,272	290,812

The balance on the Consolidated Fund comprises:

	On which cash received £000	2017-18 On which cash receivable £000	Total £000
Balance on the Consolidated Fund at 1 April	-	290,812	
Balance on Consolidated Fund Account as at 31 March	-	334,272	

	On which cash received £000	2016 -17 On which cash receivable £000	Total £000
Balance on Consolidated Fund Account as at 1 April	-	232,829	232,829
Balance on Consolidated Fund Account as at 31 March	-	290,812	290,812

7. Notes to the Statement of Cash Flows

	Notes	2017-18 £000	2016 -17 £000
Net cash flow from operating activities is derived as follows:			
Net revenue for the Consolidated Fund	6	43,460	57,983
Adjustment for non-cash items:			
Increase / (decrease) in impairment provision	2	222,627	212,192
(Increase) / decrease in gross receivables		(311,383)	(219,515)
Increase / (decrease) in payables		78,967	(10,164)
Net cash inflow / (outflow) from operating activities		33,671	40,496

8. Financial instruments

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

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

a) Carrying amount and fair values

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

The fair value of receivables is determined by making an impairment to reduce the carrying value of receivables to the net present value of the estimated future flow of repayments discounted at the Treasury rate of 3.7% (2016-17: 3.7%).

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

Assumption	Increase / (decrease) in net receivables		
	Change in assumption	2017-18 £m	2016 -17 £m
Projected cash collections	+10%	52.2	46.6
Projected cash collections	+5%	26.1	23.3
Projected cash collections	-10%	(52.2)	(46.6)
Projected cash collections	-5%	(26.1)	(23.3)

There is no effect of a change in the discount rate as the discount rate remains unchanged from the previous year.

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

b) Liquidity risk

Liquidity risk is the risk that HMCTS, on behalf of the Consolidated Fund and other parties, will encounter difficulty raising liquid funds to meet commitments as they fall due.

HMCTS is obliged to surrender only those funds that it has collected and banked. As such, HMCTS, in its capacity as agent, does not have significant liquidity risk.

c) Credit risk

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

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

	2017-18	2016-17
	£000	£000
Cash at bank	139,413	105,742
Receivables	644,318	555,562
	783,731	661,304

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

The size of the risk inherent within the trade receivables balance (shown net of impairment above) is reflected in the receivables impairment which totals £2,357million (2016-17: £2,134million). HMCTS, through the Governance and Risk management structures outlined in the Governance Statement, continues to assess and implement programmes to increase collection of receivables.

d) Currency risk and interest rate risk

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

9. Events after the reporting period

In accordance with the requirements of IAS 10, 'Events After the Reporting Period', post Statement of Financial Position events are considered up to the date on which the Accounts are authorised for issue. This is interpreted as the same date as the date of the Certificate and Report of the Comptroller and Auditor General.

There were no adjusting events in the period.







CCS0618902148

978-1-5286-0647-9