



Legal Aid
Agency

Legal Aid Agency

Annual Report and Accounts
2018-19



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Legal Aid Agency **Annual Report and Accounts 2018-19**

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Performance report





Chief Executive's statement

I am pleased to introduce the sixth Annual Report and Accounts of the Legal Aid Agency (LAA). This year the Agency has made important progress on our commitment to provide more efficient legal aid services.

Strategic Objective 1

Provide simple, timely and reliable access to legal aid

We continue to meet the challenging targets that we set ourselves for our core business processes; we processed 91% of applications for civil legal aid in 20 working days and we paid 99% of civil and criminal bills within 15 working days.

During 2018-19 we have successfully commissioned and implemented over 1570 contracts for civil legal aid. This was a large and complex process and we will be applying the lessons learnt over the course of the year. We also continued to make progress with our Agency Transformation Programme, to simplify the delivery of legal aid and create a modern, digital service.

Our Public Defender Service (PDS), which provides independent, client-centred advice and representation in all types of criminal cases from the police station to higher courts, has maintained its Lexcel accreditation demonstrating that quality of the service provided remains paramount. The PDS also shares its day-to-day experience of the criminal justice system with policy makers and court reform colleagues.

Strategic Objective 2

Build strong relationships across Government and the justice system

We have continued to take a collaborative approach to deliver an efficient legal aid service on behalf of the Government and the taxpayer.

We work with legal aid providers and stakeholders and hold regular meetings with external representative bodies through the Crime and Civil Contract Consultative Groups. Working closely with legal aid providers our Provider Engagement Team has streamlined both non-passported and capital means assessment and now process these applications within two working days.

We will consider the Legal Aid and Punishment of Offenders Act Post Implementation Review and support the delivery of the Legal Support Action Plan. We will also continue to work with Government colleagues to improve data sharing.

**Strategic
Objective 3****Secure value for money for the taxpayer in all that we do**

Good financial stewardship and protecting the Fund remains a key priority for the Agency. We remain committed to minimising our error rate and we have worked with providers to reduce the value of payments on account on outstanding cases by over £19m.

As an Agency we make a determined effort to live within our means. We have reduced our staff costs by £2.1m compared to 2017-18. Other operating costs have increased by £5m, this is driven by an increase in non-cash expenditure of £5.3m, due to improvements made to our digital systems.

**Strategic
Objective 4****Achieve our full potential through being fair, proud and supportive**

I am delighted that we have maintained our staff engagement score at 71% and that we remain within the top ten of 102 participating Civil Service organisations.

We have offered learning opportunities for staff at all levels in the organisation, including development programmes, professional qualification and apprenticeships to ensure that our people have the capability to be at their best and to realise their talents.

We have continued to focus on making the LAA a great place to work, maintaining an inclusive culture and empowering and supporting our staff to look after their wellbeing.

This puts us in a strong position as we transform to become a simpler, smarter organisation.

We will continue to play a pivotal role across the justice system to help protect and advance the principles of justice. And we will continue to achieve our objectives working closely with partner organisations in the Ministry of Justice (MoJ), across Government and beyond.

Shaun McNally CBE

Chief Executive and Accounting Officer

Legal Aid Agency

27 June 2019



We processed over 480,000 applications for legal aid.

91% of civil legal aid applications were processed within 20 working days except in the most complex cases.

100% of criminal legal aid applications processed within 2 working days.

Processing / delivery



We processed over 700,000 bills within 15 working days of receiving them.

99% of complete, accurate bills were paid within 20 working days, exceeding the **90%** target.

Processing / delivery



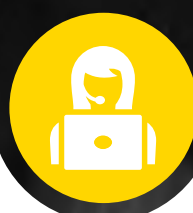
The Public Defender Service maintained their Lexcel accreditation for excellence in legal practice management and client care. They continue to share their experience of the criminal justice system to inform policy makers and court reform.

Our people



Our staff engagement score was maintained at **71%** in the annual People Survey. Amongst participating Civil Service organisations, the LAA are in the top **10** for engagement.

Our people



We answered over **200,000** phone calls to our call centres, and exceeded all our customer service and correspondence Key Performance Indicator targets.

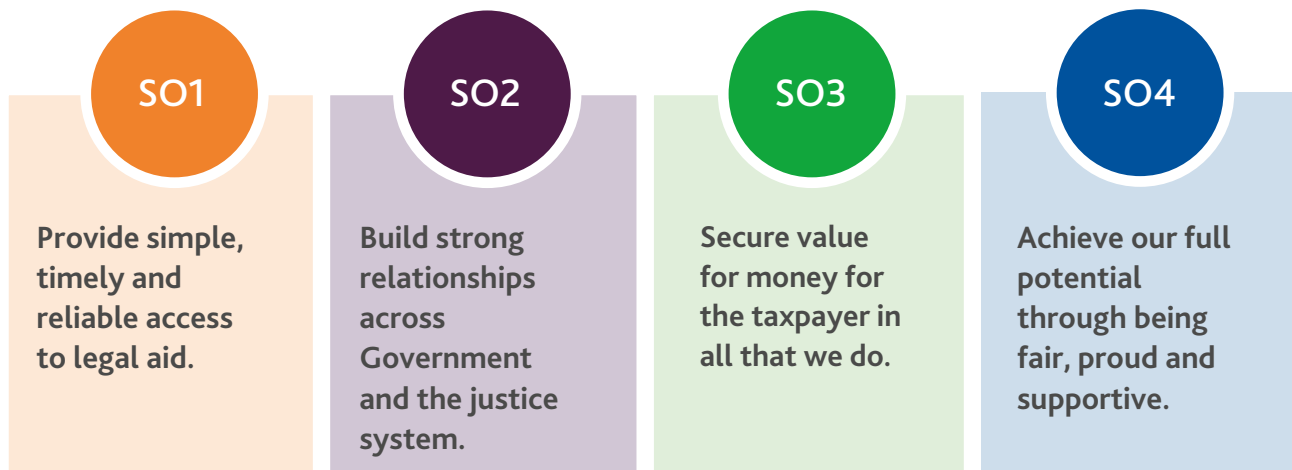
Reputation

About the Legal Aid Agency

Our purpose: Working with others to achieve excellence in the delivery of legal aid

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 providers and the wider Ministry of Justice (MoJ) to attain this. Our purpose has been at the heart of all 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 four Strategic Objectives:



Further detail on our Strategic Objectives can be found on pages 13-21 of the Performance Analysis section.

These Strategic Objectives continue to provide the direction that supports our work to improve and modernise the LAA, strengthen our partnerships across the justice system whilst securing value for money for the taxpayer, and ensure that our people have the right skills and tools to carry out their roles.

Our Strategic Objectives support the MoJ's vision as outlined in the MoJ's Single Departmental Plan: <https://intranet.justice.gov.uk/documents/2018/07/single-departmental-plan.pdf>

What we do

At the core of our work we:

Process applications for civil and criminal legal aid and pay bills for those services promptly and accurately.



Design, develop and tender new contracts to ensure the provision of legal aid services.



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

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

All of this is supported by

Moj Finance and Digital professionals who support the LAA as part of the functional leadership framework. They administer payment of legal aid, ensure financial requirements are met, and support delivery of key change programmes and our move to digitise services and automate processes.

A corporate function that ensures effective communications, builds a diverse, inclusive and engaged workforce, supports our Board and Executive Leadership Team, leads on business planning and corporate reporting, 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.

Our People

Our people are at the heart of what we do. During 2018-19 we continued to make the LAA a great place to work and were proud this has been reflected in our high levels of engagement in our 2018 People Survey.

We provided the right mix of learning and development opportunities and strengthened our leadership capability. Our people have benefitted from a range of development programmes within and outside the LAA.

In this year we have started to adopt a new approach to recruitment and performance management, better enabling us to attract and retain a diverse range of people. Across all our sites our people were supported to take advantage of our Smarter Working offer.

We remain committed to the values of equality, diversity and inclusion in both the delivery of legal aid and in our workplace and have actively promoted physical and mental health and wellbeing.

Our Partners

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

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

Our relationships with our providers are central to the work of the LAA. Through meetings such as the Crime and Civil Contract Consultative Groups and the Provider Engagement Team, 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 the legal aid pages of GOV.UK, we share updates with over 14,000 subscribers with our LAA Bulletin and we are increasingly using Twitter.

Engagement in Wales

The LAA, through strategic working groups, maintains links with the Welsh Government, in recognition of the devolved administration.

We work directly with stakeholder groups, for example, the Criminal and Family Justice Boards for Wales, as well as specific Welsh stakeholders including Children and Family Court Advisory and Support Service – CAF/CASS Cymru.

Director of Legal Aid Casework

The Legal Aid, Sentencing and Punishment of Offenders Act (LASPO) 2012 ensured that the decision-making process for legal aid applications remained independent from Ministers. The role of Director of Legal Aid Casework (DLAC), which was created as a result of the Act, has responsibility for making decisions on individual applications for legal aid. The LAA's Chief Executive currently undertakes this role, in practice delegating decision making to LAA caseworkers and providers. The LAA Board supports the Director to ensure that robust practices are in place to maintain the independence of the decision-making process. The DLAC Report is published annually alongside the Annual Report and Accounts.

The Public Defender Service (PDS)

The PDS provides defence advice and representation in all types of criminal cases from the police station to the higher courts. It represents legally-aided defendants and includes an Advocacy Team. PDS advocates conduct cases throughout the country, and can be instructed by any solicitor firm or legally-aided defendant. The PDS is Lexcel accredited for excellence in legal practice management and client care.

Our Reform Programmes

Our Agency Transformation Programme (ATP)

Through ATP we are committed to delivering more efficient, smarter services to society, the public and our legal aid providers, and ensuring that the LAA remains a great place to work.

The vision of ATP is to simplify the delivery of legal aid by 2020. We have already begun to do this by:

1. Developing a new digital service to handle legal aid applications, including trailblazing the use of Open Banking technology to improve how citizens share information with us.
2. Working across Government to better share data; wherever possible we want to access data that already exists elsewhere in Government, rather than ask for it again.
3. Piloting a secure file exchange, enabling providers to share electronic files with us more easily.

Our Change Portfolio

Our Change Portfolio ensures that we make those changes that are necessary to support our operating environment and continue to meet our performance targets. We have updated the way that we work to introduce a process of joint governance with digital teams and to ensure alignment of strategic priorities.

Some examples of this include:

- Stabilising our IT infrastructure;
- Responding to legislative changes, new policy initiatives and ministerial priorities;
- Improving data sharing and keeping pace with modernisation across the justice system;
- Renewing and re-tendering business critical contracts; and
- Continuing our work on our Agency Transformation Programme.

Performance analysis

In our sixth year as an Executive Agency we have delivered a number of service and process improvements which have positively impacted the way we work. This was achieved whilst continuing to deliver strong performance against our Strategic Objectives and operational targets.

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.

SO1	SO2	SO3	SO4
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
KPI: Operational Delivery KPI: Correspondence and Customer Services		KPI: Financial Management	KPI: People
<p>Commitments</p> <ul style="list-style-type: none"> • Maintain our focus on providing simple, timely and reliable access to legal aid 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 • Deliver new civil legal aid contracts • Provide high quality, responsive, accessible customer services to our users and partners in the justice system • Continue to deliver a high quality Public Defender Service 	<p>Commitments</p> <ul style="list-style-type: none"> • Support delivery of the Secretary of State's priority for an effective and fair justice system which will serve all users, whenever they need it • Work with our partners across the justice system to respond to the findings of the LASPO Post Implementation Review • Continue to embed the public sector equality duty in our design and delivery of legal aid 	<p>Commitments</p> <ul style="list-style-type: none"> • Exercise careful financial stewardship of the Legal Aid Fund, focussing on identifying efficiencies in business processes and fraud prevention • Undertake the effective commissioning of services and contract management • Continue to deliver our Change Portfolio, ensuring that we contribute to MoJ's drive to maintain a continued tight grip of departmental finances 	<p>Commitments</p> <ul style="list-style-type: none"> • Implement our People Plan, better enabling us to attract and retain a diverse range of people, provide the right mix of learning and development, and build our future leaders • Continue to create a great workplace that is fair and inclusive, using the MoJ Values to set high expectations of behaviour. Support increased social mobility, and better physical and mental health • Embed our Digital Strategy, ensuring that across all our sites our people have the tools and capabilities needed to take advantage of our Smarter Working offer

Strategic Objective 1

SO1: Provide simple, timely and reliable access to legal aid



KPI: Operational Delivery

- Measures how quickly we process applications for civil and crime legal aid and pay provider bills.
- Monitors management of providers' contract performance.



We improved our performance for processing crime applications, and remained within targets for processing crime and civil bills and civil applications

100% of criminal applications were processed within **2 working days** (target 90%)

91% of civil applications were processed within **20 working days** (target 80%)



We paid **99%** of bills in a month (target 90%)



KPI: Correspondence and Customer Services

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

99% of 1st tier complaints were dealt with within **20 days** (target 90%)

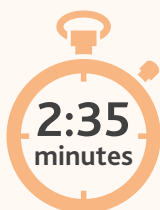
100% of FOI requests were answered in **20 days** (target 90%)

98% of DPA requests were answered in **30 days**



99% of 2nd tier complaints were dealt with within **20 days** (target 90%)

Calls were answered in an average of



for Civil



for Crime

In our Central Contact Centre (target less than 02:50 minutes)

98% of correspondence from Members of Parliament were dealt with within **20 days** (target 90%)



Our abandoned call rate

8.15% for Civil and **6.46%** for Crime (target less than 12%)

1

Strategic Objective 1 is linked to the following commitments

Key for commitments reporting



Achieved



Not achieved



Maintain our focus on providing simple, timely and reliable access to legal aid 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



Deliver new civil legal aid contracts



Provide high quality, responsive, accessible customer services to our users and partners in the justice system



Continue to deliver a high quality Public Defender Service

We have continued work in our Agency Transformation Programme to simplify the delivery of legal aid by 2020. Our key aims are to provide a service that is easy to access and simple to administer, is a modern digital service and that is flexible and adaptable to meet future needs.

In October 2018 the final set of new civil contracts were delivered. This followed the successful commissioning and implementation of over 1,580 new contracts for civil legal aid services. The services covered both face to face and telephone based contracts, providing civil legal aid services to the public.

Responding to a more challenging customer service target this year to answer 90% of Data Protection Act enquiries in 30 days we exceeded this, answering 98% of requests in 30 days.

Maintaining their Lexcel qualifications, our Public Defender Service has continued to provide independent, client-centred advice and representation in all types of criminal cases informing policy makers and court reform.

Strategic Objective 2

SO2: Build strong relationships across Government and the justice system

2 Strategic Objective 2 is linked to the following commitments



Support delivery of the Secretary of State's priority for an effective and fair justice system which will serve all users, whenever they need it



Work with our partners across the justice system to respond to the findings of the LASPO Post-Implementation Review



Continue to embed the public-sector equality duty in our design and delivery of legal aid

Legislative changes this year that have meant that we have introduced changes to our Litigator Graduated Fee and Advocate Graduated Fee Scheme.

Working closely with Legal Aid Policy colleagues, we have helped to develop and establish the Criminal Legal Aid Review and Legal Aid Means Test Review reform programmes.

We have worked with HMCTS to ensure that legal aid provision aligns with, and supports its programme of reforms, including the Flexible Operating Hours pilots as well as the longer-term HMCTS Reform programme.

Throughout the year, across MoJ, we have provided subject matter expertise, data, and assistance to MoJ colleagues producing the LASPO Post Implementation Review report, and supported the development of the Legal Support Action Plan.

To improve the efficiency and effectiveness of our digital changes and improvements we have made progress in joining up our approach with teams across MoJ and wider government.

We have met with representative bodies to discuss and resolve operational and policy issues on a regular basis. We have worked collaboratively with other parts of Government to ensure that legal aid is considered in wider policy and legislative changes, and have participated in a variety of pilots and projects.



Strategic Objective 3

SO3: Secure value for money for the taxpayer in all that we do



KPI: Financial Management

Agency administration costs – deliver the efficiencies and cost savings required to enable the Agency to deliver simple, timely and reliable access to legal aid within the allocated administration budget.

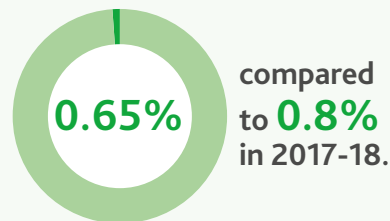
- Legal Aid Fund Spend – exercise careful financial stewardship of the Legal Aid Fund, focusing on identifying efficiencies and fraud prevention
- Net error rate – monitoring the accuracy with which we grant applications for legal aid and process bills.

In 2018-19:



We have reduced our staff costs by £2.1m compared to 2017-18. Other operating costs have increased by £5m, this is driven by an increase in non-cash expenditure of £5.3m, due to improvements made to our digital systems.

The net estimated error rate for 2018-19 is:



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



3

Strategic Objective 3 is linked to the following commitments



Exercise careful financial stewardship of the Legal Aid Fund, focussing on identifying efficiencies in business processes and fraud prevention



Undertake the effective commissioning of services and contract management



Continue to deliver our Change Portfolio, ensuring that we contribute to MoJ's drive to maintain a continued tight grip of departmental finances

Focused use of management information and pro-active communication with our Providers has enabled closure of cases, reducing payments on account values on outstanding civil cases by over £19 million during 2018-19.

Our Agency Transformation Programme has continued to progress throughout the year with digital development work exploring new ways of working. We have also begun piloting and implementing simplification and automation ideas to reduce manual interventions and streamline processes. Family Advocacy Scheme billing changes, using an evidence based approach to inform decision making and travel automation in crime billing, automatically calculating mileage for Providers were good examples of this approach in practice.

Strategic Objective 4

SO4: Achieve our full potential through being fair, proud and supportive



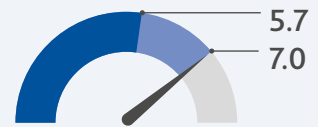
KPI: People

Sick absence – monitor the number of days lost through sickness.

In 2018-19:



5.7 average working days lost due to sickness of staff across LAA (compared to 4.9 for 2017-18)



Below the Civil Service benchmark of **7.0 days**

4

Strategic Objective 4 is linked to the following commitments:



Implement our People Plan, better enabling us to attract and retain a diverse range of people, provide the right mix of learning and development, and build our future leaders



Continue to create a great workplace that is fair and inclusive, using the MoJ Values to set high expectations of behaviour. Support increased social mobility, and better physical and mental health



Embed our Digital Strategy, ensuring that across all our sites our people have the tools and capabilities needed to take advantage of our Smarter Working offer

Throughout the year we have promoted the key elements of our People Plan 2018-19 promoting and supporting opportunities including the Leadership Development Programme, Building Skills Programme, apprenticeships, shadowing, professional development and mentoring schemes. We continue to participate actively in the social mobility and schools' programmes. In September we launched our part-time workers and carers network to support people across the LAA.

Building capability, in September our people took part in a digital skills survey resulting in a working group identifying key actions to progress. These focus on providing support and continuing to develop digital skills.

We maintained our staff engagement score at **71%**.

Amongst participating Civil Service organisations, the LAA ranked **9th overall** and **1st** for similar sized Civil Service organisations

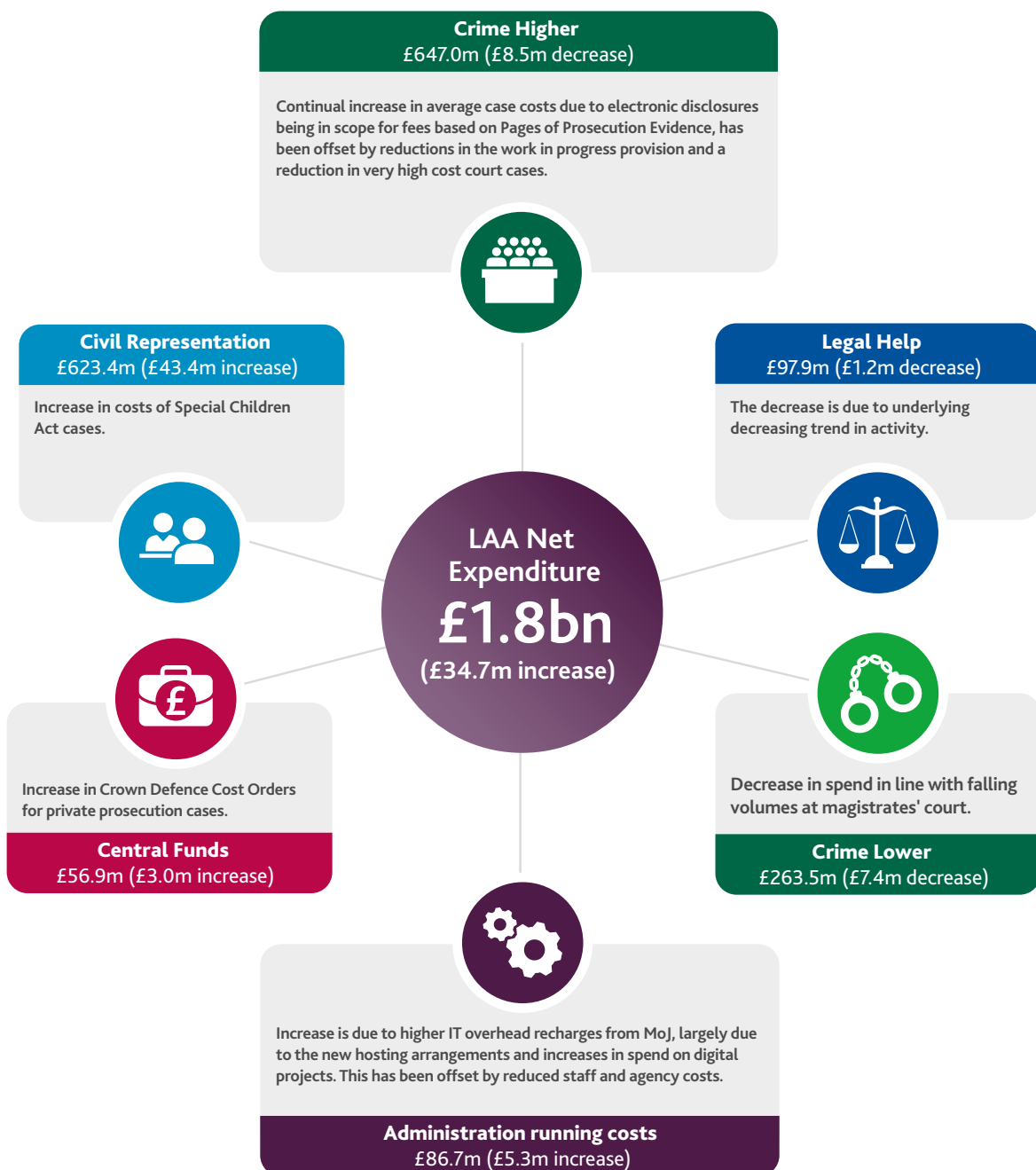
The LAA are in the top 10 (of 102 Civil Service organisations that participated) for **8 out of 9** categories



To continue building an inclusive workplace, increase diversity and further embed the public-sector equality duty we launched our Fair and Included Recruitment campaign designed to embed flexible working and greater flexibility of location into new roles. We also introduced Diverse Recruitment Panels supported by our diverse recruitment pool, launched a series of face-to-face unconscious bias training sessions and held Phase II Disability Awareness Workshops.

Financial management commentary

This section provides commentary on our performance during the past year, and supports the Financial Statements. The Financial Statements are set out from pages 68 to 103. Note 2 to the Financial Statements on page 84 details the net operating costs for each of the segments below and notes 2-6 set out expenditure and income in detail. Below are the largest movements, comparing 2018-19 to 2017-18, in legal aid spend by scheme:



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 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 legal aid providers and 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 it sooner. Clients are encouraged to repay the debt as soon as they are able, to minimise interest charges.

Sustainability report

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 of the way civil servants work.

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 operations. We also promote responsible procurement and waste management practices. The Department for Environment, Food & Rural Affairs provides details of Government Buying Standards for a range of products. As part of all tendering activity where they apply, the requirements of the Government Buying Standards are mandated by us.



Climate change awareness – the MoJ's Sustainable Development Team continues to manage and review high-risk buildings and sites. This highlights premises susceptible to the effects of climate change, such as temperature, flooding, and other adverse climatic conditions. This enables us to evaluate energy usage to better inform our operational strategy and to better operate sustainably.



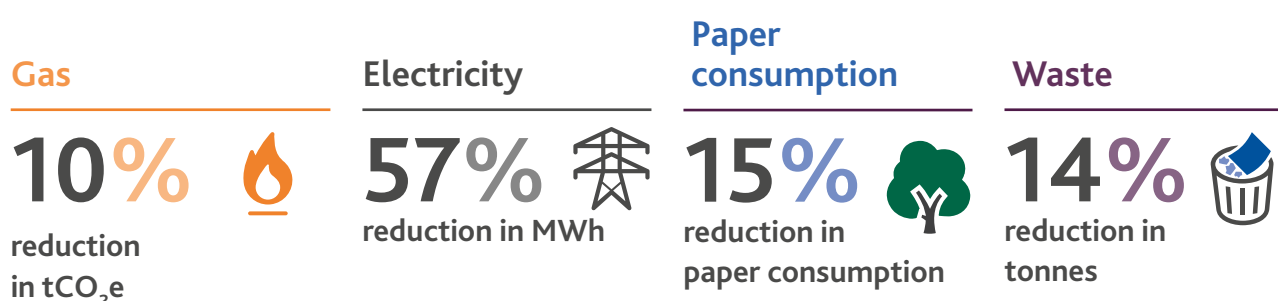
Digitisation – In 2018-19, 98% of initial contact to the LAA, including submission of applications and bills, took place online. We are making improvements to the way we ask for evidence, how we use data from other government departments and how we handle large files to further reduce our reliance on paper. We have increased automation (for example in travel claims in Crown Court) to allow us to process cases more efficiently. We will make further improvements as we roll out our new Apply for Legal Aid service which passed its initial government digital assessment in 2018 and will commence roll out in 2019. We have continued to offer improved collaboration tools for internal staff to allow more efficient, flexible working. Paper usage has fallen again from 10 to 8 tonnes (reduction of £1k in spend), demonstrating the continued benefits from projects that were completed in the previous financial year.

In addition, efficiency has been sought through the use of shared functions, including Shared Services Connected Limited, the Central Legal Team, and the Human Resource Business Partners, which provide support to the LAA, MoJ, and other Government Departments. This reduces the required staff, resources, office spaces, and emissions. During 2018-19, former LAA sites in Leeds and Brighton moved to cross-government hubs, which enable us to share resources with other Government Departments and public bodies. The Cambridge site relocated within the same building.

LAA, as part of the wider MOJ, has an established Green Champion to help raise sustainability awareness and improve working practices in our offices. LAA staff participate in MoJ-wide activities such as recycling, composting of the new biodegradable cups introduced at 102 Petty France and initiatives on biodiversity such as encouraging staff to participate in the Big Garden Bird Watch.

Environmental sustainability measure reporting

Since 2018-19



Greenhouse Gas (GHG) emission

Energy	2018-19	2017-18 ²	2016-17 ²	2015-16 ²	2014-15 ²
Non-financial indicators (Tonnes of CO ₂ e equivalent (tCO ₂ e))					
Gas – Scope 1 non-renewable energy ³	85	95	103	176	157
Electricity – Scope 2 non-renewable energy ³	107	323	417	528	484
Electricity – Scope 2 renewable energy ³	77	102	124	158	144
Official business travel emission – Scope 3 ¹	174	194	162	260	334
Total	443	713	806	1122	1119
Non-financial indicators (Megawatt hour MWh)					
Gas – Scope 1 non-renewable energy ³	463	514	560	959	853
Electricity – Scope 2 non-renewable energy ³	348	1,050	1,356	1,720	1,574
Electricity – Scope 2 renewable energy ³	252	332	405	514	470
Total	1,063	1,896	2,321	3,193	2,897
Financial indicators (£000)					
Gross expenditure on energy ³	108	210	267	350	319
Expenditure on official business travel ¹	642	662	502	896	1,459
Total	750	872	769	1,246	1,778

1 Excludes travel relating to staff who have moved to MoJ as part of functional leadership from 2017-18.

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

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

Energy consumption and Greenhouse Gas (GHG) emissions from purchased electricity and gas for heating have decreased compared to last year. Total spend on electricity and gas has fallen by 49%. Our Leeds and Brighton 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		2018-19	2017-18 ^{1,2,3,4}	2016-17 ^{2,3}	2015-16 ²	2014-15 ²
Output information (km 000)	Motor vehicle	415	415	366	513	561
	Rail	2,131	2,513	1,948	3,230	4,415
	Flight	33	55	64	153	237
	Total	2,579	2,983	2,378	3,896	5,213
Output information (tCO ₂ e)	Motor vehicle	75	75	66	93	101
	Rail	94	111	86	143	195
	Flight	5	8	10	24	37
	Total	174	194	162	260	334

1 Excludes travel relating to staff who have moved to MoJ as part of functional leadership, from 2017-18.

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

3 The rail km has been amended to include an estimated 37,000km for season ticket travel

4 The motor km has been restated due to additional data

There has been no change to motor vehicle emissions as distance travelled has remained constant, while rail emissions have decreased by 15% as rail travel has reduced. Flight emissions have decreased by 43% following a 40% decrease in distance flown. Overall emissions have decreased by 11%.

Finite resource consumption

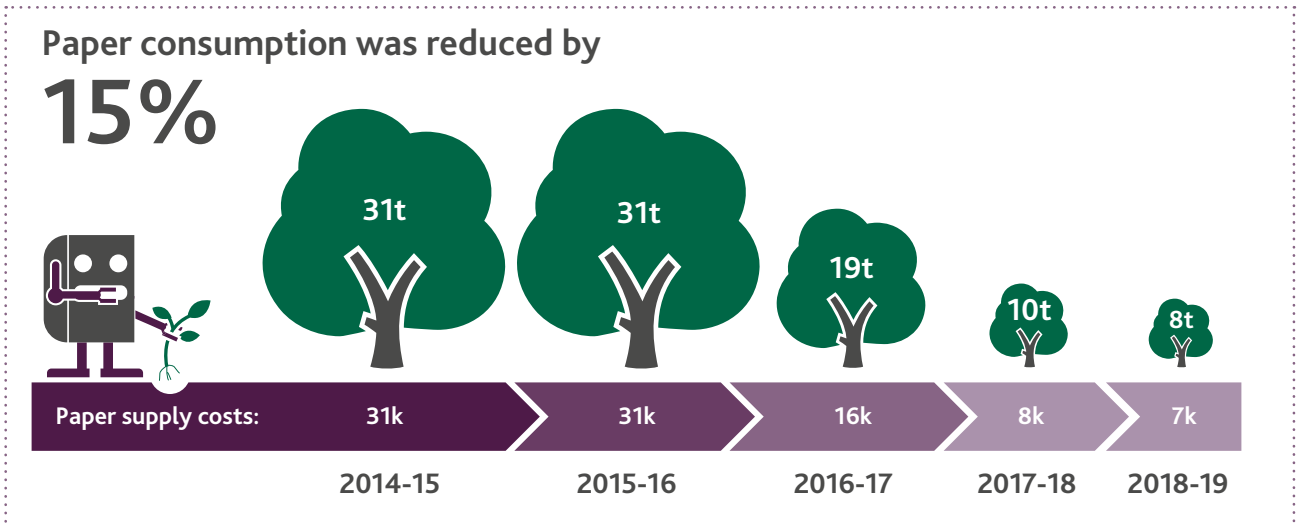
Water ¹		2018-19	2017-18 ²	2016-17 ²	2015-16 ²	2014-15 ²
Non-financial information (cubic metres)	Water consumption	3,496	14,897	14,792	13,102	9,634
Financial information (£000)	Water supply costs	5	21	21	20	14

1 Available information reported for: Cambridge, Nottingham, Newcastle, Darlington, Swansea, and Cheltenham.

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

Our consumption of water has reduced by 77% between 2017-18 and 2018-19.

Paper



Our consumption of paper between years has significantly reduced and spend has reduced accordingly. This is a positive outcome from our progress towards achieving a digital paperless operation.

Waste minimisation and management

Waste ¹		2018-19	2017-18 ²	2016-17	2015-16 ¹	2014-15
Non-financial information (tonnes)	Waste sent to landfill	162	148	298	345	298
	Waste recycled/reused	691	840	366	692	618
	Total	853	988	664	1037	916
Financial information (£000)	Waste sent to landfill	17	16	32	37	32
	Waste recycled/reused	9	11	5	9	8
	Total	26	27	37	46	40

¹ Available information reported for: Cambridge, Nottingham, Leeds, Newcastle, Darlington, Pontypridd, Swansea, Birmingham, Cheltenham, Brighton, and London.

² Landfill and recycling for 2017-18 has been restated due to additional information received in 2018-19.

Spend on waste has lowered due to new facilities management contracts which started in January 2018. We continue to provide easily accessible recycling bins in all our offices to encourage landfill minimisation and ensure best reuse of finite resources. Further progress in digital working and paper reduction should also reduce waste in the future.

Going forward

We are continuously improving systems and controls to completely and accurately capture our environmental sustainability measures. We launched a new digital strategy in April 2018, which will further contribute to improving the efficiency of working practices.

Our sustainability strategy is to continue operating closely with the MoJ's Sustainable Development Team towards the 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 achieving the best long term minimum environmental impact. Our Sustainable Development Team and Facilities Management continue to find ways for us to reduce our carbon footprint through facilities upgrade.

We continue to explore opportunities offered by improved ways of working – through digital working, and the better use of technology.

We will explore further estates rationalisation to reduce the amount of space we occupy through more flexible working arrangements. This will further reduce our accommodation energy needs.

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.

Signed for and on behalf of the Legal Aid Agency

Shaun McNally CBE

Chief Executive and Accounting Officer

Legal Aid Agency

27 June 2019

Accountability report



Introduction

Our Framework Document sets out the arrangements for governance, accountability, financing, staffing and operations and can be viewed in full at:

<https://www.gov.uk/government/organisations/legal-aid-agency/about/our-governance>

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 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 to 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 Executive Leadership Team (ELT) are detailed on page 37. 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 Board Members are also required to declare any previously undisclosed conflicts of interest. There have been no declarations made during 2018-19.

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 (ICO). In 2018-19, there have been no incidents reported to the ICO.

The Governance Statement on pages 34-48 considers further information assurance and data security practices in the LAA.

Statement of Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Legal Aid Agency (LAA) 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 LAA and of its income and expenditure, Statement of Financial Provision and cash flows for the financial year.

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

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

The AO confirms that, as far as he is aware:

- There is no relevant audit information of which the LAA's auditors are unaware, and he has taken all the steps to make himself aware of relevant audit information and to establish that the LAA's auditors are aware of that information; and
- The Annual Report and Accounts as a whole is fair, balanced and understandable and he takes personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable.

The Principal Accounting Officer of the Ministry of Justice has designated the Chief Executive as AO of the Legal Aid Agency. The responsibilities of an AO, including responsibility for the propriety and regularity of the public finances for which the AO 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 third year as Chief Executive and AO for the LAA. I remain 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'.

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

Additionally, I continue to perform the role of Director of Legal Aid Casework (DLAC), which is designated to me by the Lord Chancellor. I undertake the DLAC role in practice delegating decision making to LAA caseworkers and providers. As DLAC, I am supported by the LAA's Board 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 Select Committee (JSC) and the Parliamentary and Health Service Ombudsman (PHSO). The MoJ, and the LAA as an integral part of the department, have continued to work across the justice system 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 a process 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 2018-19, the LAA was notified of 13 complaint referrals. Out of these, two were accepted for a formal investigation. The PHSO reached conclusions on 18 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, none were upheld in part and one case was discontinued. Of the recommendations made, all have either been complied with or are in the process of being implemented within agreed timescales. At the conclusion of an investigation the LAA will take the necessary action to 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

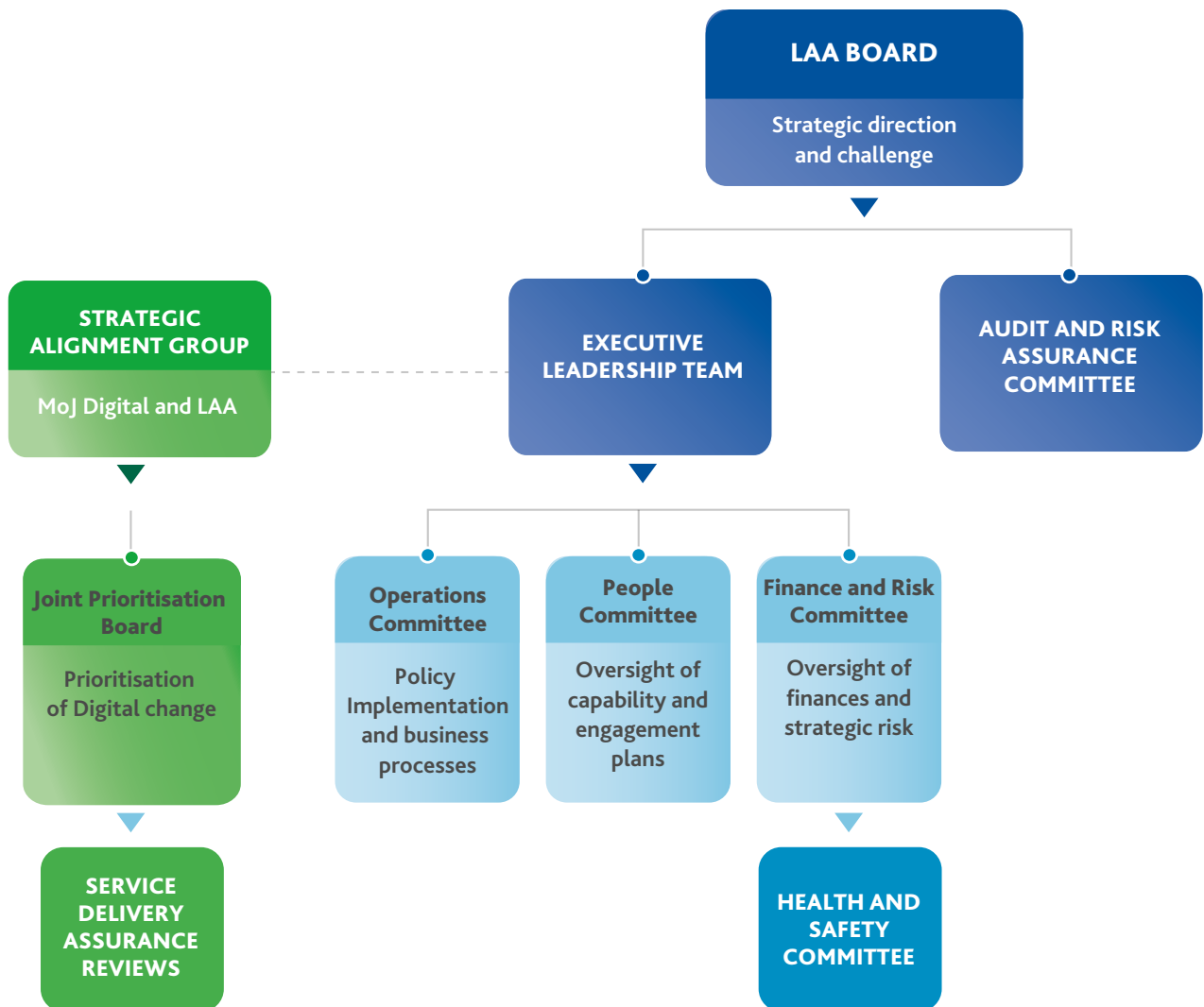
The governance structure is detailed on page 37 and was established with the commitment to streamline our governance while enabling adequate oversight and control of the LAA's delivery priorities. This was developed in line with the principles of the HM Treasury best practice guide 'Corporate Governance In Central Government Departments: Code of Good Practice' (the Code), to the extent it applies to an Executive Agency.

To streamline and improve the efficiency of our governance framework, changes have been introduced during the year to ensure that we continue to support our change agenda and deliver key decision making effectively.

A key element in simplifying the framework and associated decision-making process has been to make clear the joint responsibility for digital change of MoJ Digital and the LAA who work together to prioritise and deliver such proposals.

The governance structure implemented has worked effectively and as intended, providing strong support to myself as AO and the wider Executive Leadership Team (ELT) in discharging our responsibilities.

Governance Structure



Committee Membership & Attendance

NAME AND ROLE	GENDER	LAA BOARD	ELT	COMMITTEES					
				Investment until end June 18	Change until end June 18	ARAC	Operations	Finance & Risk	People
EXECUTIVE BOARD									
Shaun McNally CBE – Chief Executive, LAA No. attended	M	Member 11 of 11	Chair			Invitee			
Ruth Wayte – Principal Legal Advisor to LAA No. attended	F	Member – until 06.03.19 6 of 10	Member until 06.03.19						
Adrian Hannell – Interim Director of Finance No. attended	M	Member – until 16.11.18 3 of 7	Member – until 16.11.18	Chair – until end June 18		Invitee – until 16.11.18			
Lorna Maden – Interim Director of Finance No. attended	F	Member – from 21.11.18 3 of 4	Member – from 21.11.18			Invitee – from 21.11.18			
Jane Harbottle – Head of Civil and Crime Case Management No. attended	F	Member 8 of 11	Member				Chair		
David Thomas – Deputy Director of Contract Management and Assurance No. attended	M	Member 7 of 7	Member		Chair – until end June 18	Invitee		Chair – from 01.12.18	
Samantha Milton – Head of Public Defender Service No. attended	F	Member 1 of 5	Member				Chair – from 04.03.19	Chair – until 26.07.18, from 27.03.19	
Naomi Abigail – Head of Corporate Centre No. attended	F	Member – until 26.03.19 6 of 7	Member – until 26.03.19					Chair – from 27.07.18, until 26.03.19	
Paul Henson – Deputy Director of Finance No. attended	M	Member 8 of 8	Member			Invitee		Chair – until 30.11.18	
Hannah Payne – Deputy Director of Transformation No. attended	F	Member – from 27.09.18 5 of 6	Member – from 27.09.18						

NAME AND ROLE	GENDER	LAA BOARD	ELT	COMMITTEES				
				Investment until end June 18	Change until end June 18	ARAC	Operations	Finance & Risk

NON-EXECUTIVE BOARD

John Grosvenor – Finance No. attended	M	Member 9 of 11				Chair			
Andrew Lockley – Legal No. attended	M	Member – until 30.01.19 7 of 8				Member – until 30.01.19			
Eric Gregory – Commercial No. attended	M	Member - until 30.11.18 8 of 8				Member – until 30.11.18			
Deep Sagar – Commercial No. attended	M	Member - from 01.12.18 3 of 3				Member – from 01.12.18			
Calum Mercer – Financial No. attended	M	Member - from 01.01.19 3 of 3				Member – from 01.01.19			

OTHER

Head of Digital	M	Invitee	Member			Invitee			
Head of Finance	M					Invitee			
Head of Chief Executives Office	F	Invitee				Invitee			
Moj HR Director for LAA	F	Invitee	Member						
Moj Director – Legal Aid Policy	M	Invitee							
Moj Director General of Finance	M	Invitee							

Committee roles and responsibilities

Legal Aid Agency Board

The LAA Board supports me as Accounting Officer (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, who are set out below. The composition of the Board has changed over the last year as we have rationalised our committee structure (page 37) and adopted a joint governance structure with MoJ Digital. The LAA Board is comprised of:

- Chief Executive;
- The Non-Executive Board Members (NEBMs);
- The Principal Legal Advisor;
- The Director of Finance;
- The Chairs of the three Committees; and
- Deputy Director for Agency Transformation

There have been changes to the individual Board members. The tenure of two of our NEBMs ended, and two new Non-Executive members to the Board have been appointed. Calum Mercer, Deep Sagar, Lorna Maden and Hannah Payne have joined the Board. Andrew Lockley, Eric Gregory, Ruth Wayte, Adrian Hannell and Naomi Abigail have left. Suzanne Rab is appointed as a NEBM from 01 April 2019.

There were 11 meetings of the Board, as well as two Board strategy meetings during 2018-19. The first of these strategy meetings focussed on the development of a user-centric approach to the way that we administer legal aid. The second strategy meeting, considered the future direction of the Agency's Transformation Programme and Organisational Design work. The Board also held a workshop reviewing the Agency's approach to risk where it considered the interrelationship of risks and Agency's risk appetite statement.

During the year the Board has reviewed key aspects of LAA's performance focusing on operational performance, finances, achievements, risks, and improvement actions. The Board has taken assurance from the work of Internal Audit that effective financial controls are in operation underpinning the data included in these reports. The Board has also taken a great interest in staff engagement; monitoring progress against plans and scrutinising the People Plan for 2018-19. After evaluating its own effectiveness, the Board agreed that it would improve the flow of information to it from the Audit and Risk Assurance Committee (ARAC). The Board also commissioned work to update and improve the induction to the Board in order to provide the best possible support for new members. Over the year the Board has continued to increase the visibility of its members by visiting staff in different LAA offices.

Audit and Risk Assurance Committee (ARAC)

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.

During 2018-19 the ARAC has continued to maintain 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.

In exercising their duties and accountabilities both the Board and ARAC have provided significant support, challenge and guidance over the course of the financial year.

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 corporate level risks.

The ELT maintains high-level oversight of the operational running of the LAA and is supported in its responsibilities by three committees and one shared committee with the Digital team (hosted in MoJ). These committees were created to facilitate deeper, focused discussions on specific issues as well as the completion of tasks delegated from the 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, the 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.
- **Strategic Alignment Group:** A joint forum with Digital, to agree shared priorities on digital change investment, and supported by assurance boards to monitor delivery and risk management. This joint approach replaced separate Change and Investment Committees, reflecting a movement from project-based delivery to primarily a service model approach to ongoing digital investment.

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.

I am assisted in the stewardship of the LAA's resources and management of its risks by the Board, the 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, the 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

During the course of the audit programme in 2018-19 all audits were rated as 'Moderate' or 'Substantial'. Of the actions recorded there were two high priority and 30 medium priority. Overall this is an improvement compared to the previous year.

In his annual report to the LAA, the Head of Internal Audit commented "management have been proactive to accept and implement key recommendations to improve controls arising from the work of Internal Audit". Management action continues to be monitored by LAA Assurance and reported on to the ARAC.

Based on the work completed throughout the course of the year; his knowledge of the LAA and attendance at the ARAC, the Head of Internal Audit has provided a 'Moderate' opinion on the Agency's framework of governance, risk management and control.

Assessment of significant risks and issues

As an organisation we have continued to manage ongoing and inherent risks to the delivery of our strategic objectives. The ARAC, the ELT and the Board have continued to review and challenge the progress made to manage and contain the risks documented in the LAA's Corporate Risk Register, which has focused on the key internal, external and strategic risks to the delivery of our objectives. This has included risks relating to, but not limited to: the LAA's finances, systems, market stability, digital change management and structures and operations.

Management of the Legal Aid Fund is a particular challenge due to its demand-led nature. We use a robust model for forecasting based on trend data alongside simulations of current risks and opportunities. This enabled us to identify pressure on the Fund during 2018-19 and ensure we were successful in securing additional budget to meet the public need, from HM Treasury.

Our focus continues to be on working alongside our providers of legal aid to maintain stability in the market by: managing our reliance on the MoJ's IT infrastructure and LAA legacy systems; and reducing the likelihood of fraud and error arising in the legal aid Fund.

We are responsible for implementing legal aid policy which is made within the MoJ legal aid policy function. We work closely with MoJ policy colleagues to ensure LAA's arrangements and our operational approach are consistent, correct and aligned to policy intent. The legal aid scheme and decisions made under it are closely scrutinised and frequently challenged by providers, their representative bodies, and clients. We have clear processes in place to preserve the statutorily-imposed independence of decision-making required of the Director of Legal Aid Casework in respect of individual cases. Given the risks inherent in legal challenges which have a legal aid policy angle, we have put in place weekly meetings with LAA and MoJ stakeholders so issues are identified, communicated and dealt with expediently. In addition, the LAA legal team has already agreed the principles of 'ways of working guidance' with the MoJ legal team and are working to those principles. The written guidance will be finalised shortly and will provide greater clarity on the respective roles of the two teams in the handling of any future legal challenges in respect of decisions made or changes to policy direction.

Market and system stability

The 2018 Standard Civil Contract took effect from 1 September 2018. Contracts were awarded to 1,578 providers to ensure delivery of civil legal aid services across all categories of law. This involved the delivery of a consultation with representative bodies on the content of a new contract, before the running of a non-competitive tender process that completed in early 2018. The project also introduced a 2018 Civil Legal Aid (CLA) contract for delivery of specialist telephone advice and an extension of the contracts for Housing Possession Court Duty Scheme (HPCDS) services following a successful judicial review of the policy. The LAA continues to review market capacity to make sure there is adequate provision of legal aid services across the country and moves quickly to fill any gaps that are identified.

IT Services

In the last year, we have moved all of our applications to new hosting arrangements and the majority of applications are now hosted in the cloud. This has significantly improved the security, resilience and supportability of the majority of our services. Following the move, we experienced some stability issues with our Client and Case Management (CCMS) service. We have made a number of changes to the service to improve the stability and usability of CCMS and have improved proactive monitoring on the service to allow us to respond to incidents more quickly. We have also improved the recovery time of the service to minimise downtime when there are incidents.

Next year we will begin to roll out the new Apply for Legal Aid service which will reduce the dependency on CCMS and improve the service for providers and clients. We are also making improvements to the underlying CCMS service.

The overall stability and performance of Crime systems has been positive. We have continued to receive excellent feedback for improvements to the Claim for Crown Court Defence service for example, in the way travel is claimed. The Claim for Court Defence service won the 2018 Paperless in Government awards.

We have also made improvements to the Find a Legal Advisor and Civil Legal Advice services based on user feedback.

Cyber Security

The LAA has continued to place a strong emphasis on cyber security and the safety of our data. At the start of the financial year, there were two incidents involving ransomware attacks on third parties that the LAA work with. We worked closely with MoJ cyber security experts and were able to establish that there was no evidence of data loss. We conducted lessons learned exercises and reviewed processes in response to both incidents. We have also conducted a number of business continuity and incident management exercises that focussed on responding to a possible cyber security incident.

The migration of LAA services to new hosting arrangements has significantly improved our security position. Dedicated teams working on the new platforms and on the LAA applications established continuous improvement plans to ensure that from a security perspective, the platforms are embedded, updated and properly maintained.

The LAA adopts the wider MoJ Digital approach to managing cyber security risks, protecting critical services by improving underlying technology in accordance with National Cyber Security Centre policies and guidance. To ensure ongoing management of risk in this area, our Senior Information Risk Owner periodically reviews risks and remediation plans with LAA Digital and operational teams through our internal Information Risk and Security Board, and a Technical Information Assurance Practitioner is embedded within the LAA Digital teams to advise on security best practice.

Error rate

The complexity of legal aid means there is an inherent risk of error because of incorrect eligibility assessments or inaccurate payments. This is continually scrutinised and managed as part of our stewardship arrangements. Our application and payment processes are subject to ongoing policy and administrative changes. In response 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, where we identify a particular payment was irregular, we review and recover such payments.

Specific issues to highlight this year:

- A continued risk of error on Crime Higher assessments due to the difficulty of validating electronically submitted Pages of Prosecution Evidence. Revised guidance and additional training for caseworkers have helped to reduce the impact of this issue and achieve a reduction in the overall Crime Higher error rate;
- The value of errors has reduced for Civil Representation billing as a result of improved guidance, continued emphasis on quality improvements and enhancements to the case management system;
- The level of error found on Crime Lower work has reduced further in 2018-19. following enhanced auditing of providers, increased recovery of overpayments, and provider education;
- Our Legal Help net error rate was 0.00% in 2018-19, although there was an increase in the level of gross error in the Immigration category. To mitigate this we have enhanced audits of providers, and provider education.

Our estimated gross error was £17.9m (compared to £22.0m in 2017-18). A focus on continuous improvement and the recovery of overpayments has helped reduce the most likely level of error to a net position of £11.0m or 0.65% of expenditure (2017-18: £13.7m or 0.8% of expenditure). Based on the statistical sampling techniques used, we have 95% confidence that the actual level of error is between 0.38% and 0.92% of legal aid spend.

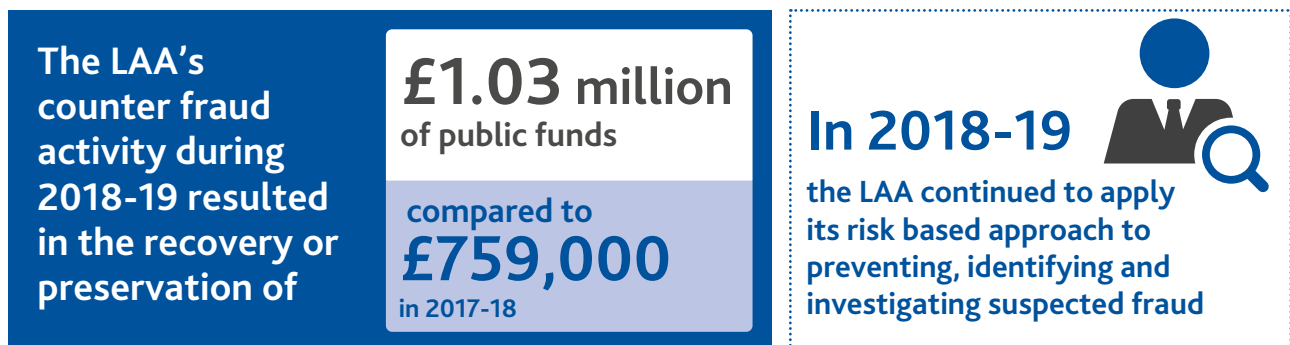
In addition to identifying instances where providers have been paid more than is reasonably justified, our testing reviews also identify instances where there have been underpayments. In 2018-19 our estimated underpayment was 0.1% of the total legal aid expenditure (compared to 0.05% in 2017-18).

Fraud

Counter Fraud updates are a standing item on the ARAC and the most significant matters receive active attention from the Board. 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, workshops, intranet articles and advice.

The LAA continues to host the MoJ Counter Fraud & Investigations Function, in recognition of the expertise and successful work undertaken within the LAA. We continue to foster close working relationships with the DWP, Solicitors Regulation Authority and wider stakeholders to gather intelligence, share data and better inform our prevention and prosecution actions. We collaborate with law enforcement agencies and the CPS to ensure national file standards and practice are followed. We participate in the National Fraud Initiative and work closely with Cabinet Office on a range of fraud detection and prevention measures. The LAA meets the Government Functional Standard for Counter Fraud, Bribery and Corruption.



Whistleblowing

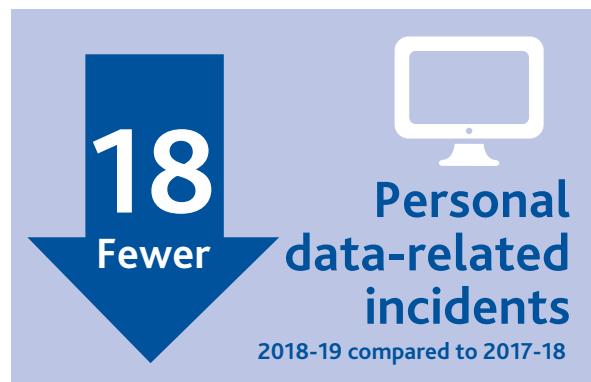
I can confirm that in the 2018-19 financial year, we received two reports that were treated as instances of whistleblowing. One was investigated and concluded with no management action being required, and the other is ongoing.

We participated in the Civil Service Whistleblowing Awareness Day on 20 September 2018, including events and information for staff, with resources available to staff on the LAA intranet pages. Those resources included a blog by the MoJ's Whistleblowing Nominated Officer.

The MoJ also promoted whistleblowing as part of a Fraud and Whistleblowing Awareness Week in March 2019 which also covered LAA staff.

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 2018-19, there were 119 personal data-related incidents reported. This is the fourth consecutive year in which we have recorded a reduced number of incidents. This reduction reflects the continued activity to maintain awareness and training for our staff regarding the handling of client data, together with increased ability to interact electronically with our Providers.

There have been no incidents that have required reporting to the Information Commissioner's Office.

CATEGORY	NATURE OF INCIDENT	2018-19	2017-18
I	Loss of inadequately protected electronic equipment, devices or paper documents from secured government premises	23	38
II	Loss of inadequately protected electronic equipment, devices or paper documents from outside secured government premises	14	17
III	Insecure disposal of inadequately protected electronic equipment, devices or paper	0	0
IV	Unauthorised disclosure	69	73
V	Other (policy non-compliance)	13	9

General Data Protection Regulations (GDPR)

Since May 2018 when the General Data Protection Regulation (GDPR) and Data Protection Act 2018 came into force in the UK, we have continued to deliver significant activity to ensure our ongoing and future compliance with the new laws. Our digital colleagues have been continuing work to make our IT systems compliant in the way personal data is stored and for how long. As part of our work to enhance our processes, we are implementing strengthened approaches to data handling and data transfers by, for example, exploring opportunities to replace residual use of couriers with increased direct access to digital file sources.

We are committed to complying with the new laws and meeting both the expectations of the Information Commissioner's Office (ICO) and the public. I am confident that the work we have undertaken in this area continues to strengthen the necessary safeguards for the personal data we hold.

Conclusion

I am confident this statement provides a comprehensive account of the governance, risk management and control arrangements we have embedded within the LAA. I am particularly pleased that our Head of Internal Audit has provided a Moderate opinion and recognised this as an improvement compared to last year. 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

27 June 2019

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 Directors General 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 Directors General and Chief Executives of the HM Prison and Probation Service, HMCTS and the LAA. The committee meets on a monthly basis to manage talent, capability and people resources. In addition, the committee is responsible for ensuring the LAA has a workforce that is the right size, has the right skills, is well managed, properly motivated and correctly deployed.

The tables in this report have been subject to audit by the external auditor, the Comptroller & 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 where appointments may be made otherwise.

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

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk

Performance process

SCS follow the Cabinet Office guidelines 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 have been met.

Total amount of salary and fees

Salary and allowances covers both pensionable and non-pensionable amounts and include 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 Executive Board Members and NEBMs are estimates; the final values are to be agreed between the LAA and HMRC, and 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 2018-19 relate to the performance in 2017-18 and the bonuses reported in 2017-18 relate to the performance in 2016-17.

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 2018) and the value of the individual's benefits at the end of the pension input period (31 March 2019); 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

The second and final terms of the three Non-Executive Board Members (NEBM) appointed in 2012, ended during 2018-19. As a result, three new NEBMs were recruited through an open competition in accordance with the Constitutional Reform and Governance Act 2010. They are appointed on merit and in recognition of their respective abilities and experience by a panel including a MoJ Non-Executive Director and delegated subject specialist as relevant. The Chief Executive appointed the NEBMs for a fixed period of three years; two started their terms in 2018-19, with one starting on 1 April 2019.

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

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

Details in relation to NEBMs' service terms, benefits or remuneration are included in Tables E and F on page 58.

Table A: Senior employees in post at 31 March 2019 – Employment costs (subject to audit)

Executive Board Members	2018-19					2017-18				
	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
Shaun McNally, CBE Chief Executive Chair of LAA Board	95-100	46.9 ^{1,5}	10-15	30	180-185	95-100	44.2	10-15	19	170-175
Lorna Maden ⁴ Interim Director of Finance (from 21/11/2018)	35-40 (105-110 FYE)	–	5-10	29	75-80	–	–	–	–	–
Ruth Wayte ² Principal Legal Advisor to the LAA (until 15/03/2019)	85-90 (100- 105 FYE)	–	–	35	120-125	90-95 (100- 105 FYE)	–	–	34	125-130
Adrian Hannell ⁴ Interim Director of Finance Operations Group (until 16/11/2018)	60-65 (95-100 FYE)	–	5-10	24	95-100	95-100	–	5-10	37	140-145
Jane Harbottle ³ Head of Civil and Crime Case Management	75-80	10.7 ^{3,6}	5-10	33	130-135	75-80	13.7 ^{3,6}	5-10	19	120-125
Hannah Payne Head of LAA Transformation (from 27/09/2018)	20-25 (70-75 FYE)	–	–	12	30-35	–	–	–	–	–
David Thomas ⁷ Deputy Director of Contract Management and Assurance	65-70	–	–	23	90-95	70-75	–	–	58	125-130
Samantha Milton Head of the Public Defence Service (until 28/06/2018) re-appointed (26/ 03/2019)	15-20 (70-75 FYE)	–	–	15	30-35	30-35 (70-75 FYE)	–	–	7	35-40
Paul Henson ⁹ Interim Deputy Director of Finance, LAA, OPG, CICA, CFO Group (until 1/12/2018)	45-50 (70-75 FYE)	–	–	19	65-70	30-35 (FYE 70-75)	–	–	12	40-45

Executive Board Members	2018-19					2017-18				
	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
Naomi Abigail ⁹ People Committee Chair (26/07/2018-26/03/2019)	45-50 (70-75 FYE)	–	5-10	22	75-80	–	–	–	–	–

1. As Chief Executive, a dual workplace agreement was entered and the costs above illustrate the benefit in kind for all travel to and from dual workplace locations.
2. Ruth Wayte is remunerated through the Government Legal Department and is employed on a part-time basis (0.91 FTE) and left the Board on 15 March 2019.
3. Jane Harbottle has a dual workplace agreement, the costs illustrate the benefit in kind for all travel to and from dual workplace locations.
4. Adrian Hannell and Lorna Maden are remunerated through the MoJ Core Department, and are not employed directly by the LAA.
5. £2.0k of 'All taxable benefits' were reimbursed in cash through I-expenses.
6. £0.5k of 'All taxable benefits' were reimbursed in cash through I-expenses.
7. David Thomas left the Board on 28 June 2018 and was re-appointed on 1 December 2018. His remuneration shown above is for the full year.
8. Samantha Milton's pension related benefits in 2017-18 have been revised due to retrospective allowance changes
9. Paul Henson is a MOJ employee, he is remunerated through the MoJ Core Department. Paul works with both the Office of the Public Guardian and Legal Aid Agency.

Table B: Banded remuneration of the highest paid Executive Board Member (subject to audit)

	2018-19	2017-18
Band of highest paid Executive Board Member's total remuneration excluding pension benefits (£000)	160-165	150-155
Median total remuneration (£)	22,124	21,810
Ratio	7.3:1	7.0 :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 2018-19 was £160-165k (2017-18: £150k-155k). This was 7.3 times (2017-18: 7.0) the median remuneration of the workforce, which was £22,124 (2017-18: £21,810).

In 2018-19 no staff or contractor (2017-18: 0) received banded remuneration in excess of the highest paid Executive Board Member.

Staff remuneration ranged from £15-20k to £140k-145k (2017-18: £10-15k to £140k-145k).

These figures exclude any severance pay in respect of compulsory redundancies and voluntary early departures disclosed in the Staff Report on page 59.

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	5	3
Lorna Maden	12 November 2018	0	3
Hannah Payne	1 July 2018	0	3
Jane Harbottle	1 April 2016	3	3
David Thomas	16 January 2017	2	3
Samantha Milton	20 March 2017	2	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, 3 providing benefits on a final salary basis (Classic, Premium or Classic Plus) with a normal pension age of 60; and one providing benefits on a whole career basis (Nuvos) with a normal pension age of 65.

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

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

PCSPS Funding

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

Employee Contribution Rates

Employee contributions are salary-related and range between 4.60% and 8.05% of pensionable earnings for members of Classic, Premium, Classic Plus, Nuvos and all 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

Table D: Executive Board Members – Pension costs for the year ended 31 March 2019 (subject to audit)

	Total accrued pension payable at pension age at 31 March 2019 and related lump sum	Real movement in pension and related lump sum payable at pension age	CETV1 at 31 March 2019	CETV at 31 March 2018	Real increase in CETV
	£000	£000	£000	£000	£000
Shaun McNally CBE	Pension 40-45 Lump Sum 105-110	Pension 0-2.5 Lump Sum 0	814	709	14
Lorna Maden	Pension 30-35 Lump Sum 90-95	Pension 0-2.5 Lump Sum 2-5.5	735	681	29
Ruth Wayte	10-15	0-2.5	177	135	20
Adrian Hannell	5-10	0-2.5	62	40	11
Jane Harbottle	25-30	0-2.5	375	309	16
Hannah Payne	5-10	0-2.5	67	51	4
David Thomas	15-20	0-2.5	198	156	6
Samantha Milton	20-25	0-2.5	325	313	9
Paul Henson	0-5	0-2.5	23	12	5
Naomi Abigail	Pension 15-20 Lump Sum 30-35	Pension 0-2.5 Lump Sum 0-2.5	230	191	9

1 CETV amounts relate to when 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 2018-19. 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 2019 – Employment costs (subject to audit)

Non-Executive Board Member	2018-19		2017-18	
	Total amount of fees £000	All taxable benefits ² £000	Total amount of fees £000	All taxable benefits ² £000
John Grosvenor ARAC Chair	10.4 ¹	0.6 ³	10.4 ^{1]}	0.5 ³
Eric Gregory (until 31 December 2018)	6.0	0.3 ³	8.0	0.7 ³
Andrew Lockley (until 31 January 2019)	6.6	0.83	8.0	1.4 ³
Calum Mercer ARAC Chair (from 1 January 2019)	2.6 ¹ (10.4 FYE)	0	n/a	n/a
Deep Sagar (from 1 December 2018)	2.6 (8.0 FYE)	0	n/a	n/a

1. The remuneration includes £2,400 (2017-18: £2,400) as Chair of the LAA Audit, Risk and Assurance (ARAC) Committee.
2. The cost of expenses varies according to the distance between the NEBMs home and the LAA's office, other travel commitments required by their role, and the time commitment of the individual NEBM. NEBMs were reimbursed for travel and other expenses including any taxation paid on those expenses.
3. For the Non-Executive Board Members the travel and subsistence expense claims are, under the HMRC rules, subject to Income Tax and National Insurance. this is paid by the LAA using a PAYE Settlement Agreement.

Employment contracts – NEBMs

Table F: NEBMs – Employment contracts

Non-Executive Board Member	Contract start date	Term served (years)
John Grosvenor	1 November 2012	6
Eric Gregory	1 January 2013	6
Andrew Lockley	31 January 2013	6
Calum Mercer	1 January 2019	0
Deep Sagar	1 December 2018	0

John Grosvenor, Eric Gregory and Andrew Lockley received three-year contract extensions during 2015-16, with their terms expiring in 2018-19. Calum Mercer and Deep Sagar were appointed, for a period of three years, during 2018-19 to replace the NEBMs who had reached the end of their term.

Staff report

Staff Costs

Table G: Staff Costs for the year ended 31 March 2019 (subject to audit)

	2018-19			2017-18		
	Permanently employed staff	Other	Total	Permanently employed staff	other	Total
	£000	£000	£000	£000	£000	£000
Salaries and wages ²	34,660	485	35,145	36,209	830	37,039
Social security costs ²	3,502	–	3,502	3,690	–	3,690
Other pension costs ²	6,676	–	6,676	6,780	–	6,780
	44,838	485	45,323	46,679	830	47,509
Cost/(Recoveries) in respect of outward secondments ²	23	–	23	(53)	–	(53)
Redundancy ¹	–	–	–	37	–	37
	44,861	485	45,346	46,663	830	47,493
Non Executives' costs:						
Fees to Non-Executive Board	30	–	30	29	–	29
	30	–	30	29	–	29
Total	44,891	485	45,376	46,692	830	47,522

1 Redundancy costs disclosed in the above table relates to one (2017: 3) full time equivalent staff, this was paid by the MOJ and therefore no costs incurred by the LAA directly.

2 Staff costs have reduced over the prior year due to Functional Leadership and staff being remunerated through MoJ Core Department.

The PCSPS is an unfunded multi-employer defined benefit scheme in which the LAA is unable to identify its share of underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2016. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservicepensionscheme.org.uk).

For 2018-19, employers' contributions of £6,716k were payable to the PCSPS (2017-18: £6,605k) at one of four rates in the range 20.0% to 24.5% (2017-18: 20.0%-24.5%) of pensionable pay, based on salary bands. The schemes actuary reviews employer contributions every four years following the full scheme valuation. The contribution rates reflect benefits as they are accrued, not when 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 £145k (2017-18: £175k) were paid to one or more of a panel of appointed stakeholder pension providers.

Nil persons (2017-18: 1) retired early on ill health grounds; the total additional accrued pension liabilities in the year amounted to £nil (2017-18: £nil).

Staff numbers

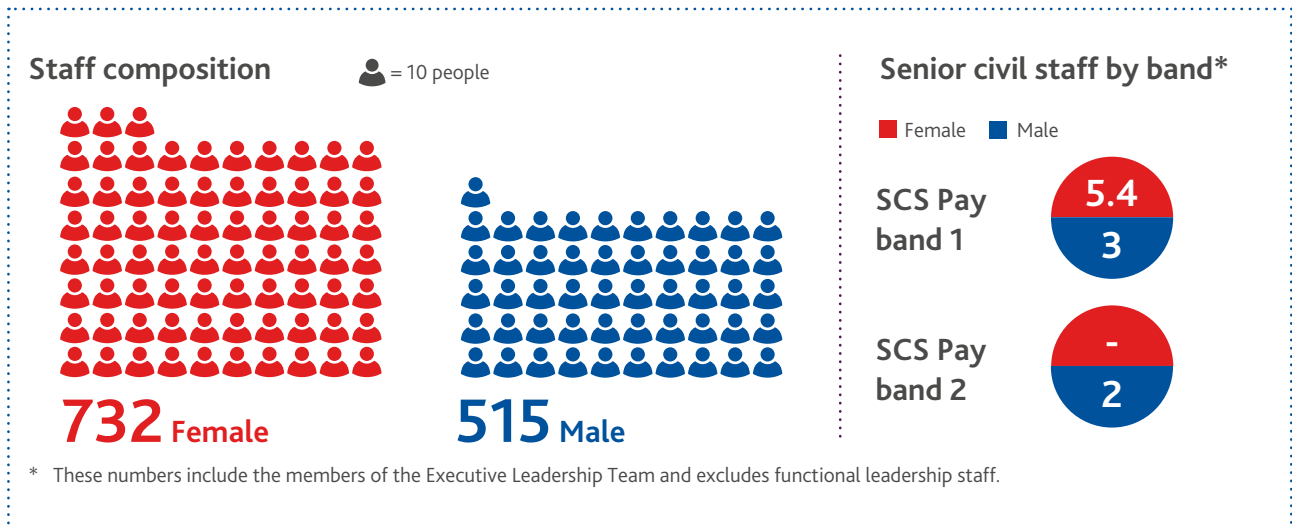
Table H: Average number of persons employed (subject to audit)

	2018-19			2017-18		
	Permanently employed staff	Other	Total	Permanently employed staff	Other	Total
Directly employed	1,198	–	1,198	1,203	–	1,203
Other	–	17	17	–	20	20
Staff engaged on capital projects	–	–	–	–	–	–
Total	1,198	17	1,215	1,203	20	1,223

Table I: Staff Composition (subject to audit)

	Male	Female
Staff composition	515	732

Staff composition



Diversity and Inclusion

We aim to attract and retain a diverse workforce at all grades, that is reflective of society, with the strengths and capability we need to work with our legal aid providers and the legal aid clients we serve, whilst continuing to ensure that we provide fair treatment, fair outcomes and equal access for our service users.

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 the functions across the LAA.

In the 2018-19 Civil Service People Survey we ranked 4th out of the 102 Civil Service organisations that participated for fairness and inclusion.

We are continuing in our efforts to build an inclusive culture with the support of our active network of LAA diversity champions, Mental Health Allies, LAA Staff Networks that include gender, age, carers and part-time workers as well as members of wider MoJ networks. We highlight national campaigns throughout the year to actively promote inclusion, including International Women's Day, Mental Health Awareness Week and support local champions to promote issues of local interest, such as support for carers. Our Senior Diversity Champions continue to raise the visibility of issues and promote equality for race, gender, disability, age, carers, LGBT, faith and part-time working.

Some of our key activity during 2018-19 included:

- Embedded content on tackling bias and Disability Confidence within roll-out of manager training on using Success Profiles.
- Supported colleagues from under-represented groups to access LAA, MoJ and Civil Service Development schemes.
- Developed package of training to promote inclusive culture within teams and build confidence to challenge inappropriate behaviour
- Hosting a series of engagement workshops with staff to explore faith, race and disability.

Our Engagement and Inclusion team have identified further actions that have been included in the LAA's People Plan to continue our diversity and inclusion work.

Employment of disabled persons

During 2018-19, the LAA worked with colleagues across the MoJ to submit a successful application for Disability Confident Leaders accreditation. The LAA has adopted MoJ policies in respect of the employment, training, career development and promotion of people with a disability. These include the MoJ's 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. LAA staff can also seek advice from the Civil Service Workplace Adjustment Team.

Sickness absence data (not subject to audit)

The Agency has seen a rise in Average Working Day's Lost and while its performance in this area remains strong, the People Committee is taking steps to address this including, raising awareness of the sick-absence process among managers to ensure it is always followed correctly; learning from, and sharing, good practice across the Agency; and continuing, with relevant colleagues across the business, to run activities to support staff wellbeing.

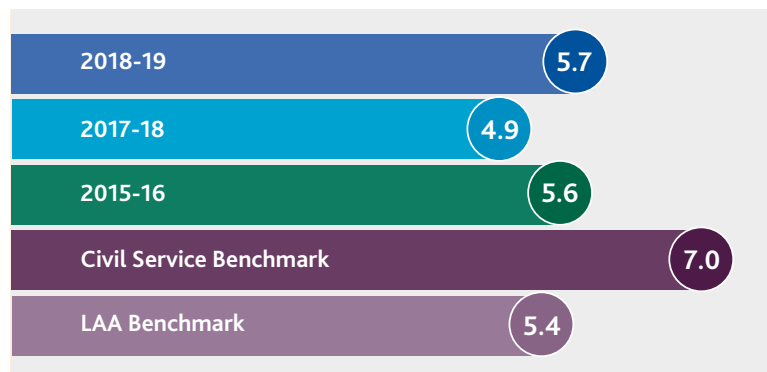


Table J: Reporting of Civil Service and other compensation schemes – exit packages

	2018-19			2017-18		
	Number of compulsory redundancies	Number of other departures	Total number of exit packages	Number of compulsory redundancies	Number of other departures	Total number of exit packages
Exit package cost band						
< £10,000	–	–	–	–	–	–
£10,000-£25,000	–	–	–	–	–	–
£25,000-£50,000	–	–	–	–	1	1
£50,000-£100,000	–	–	–	–	–	–
Total number of exit packages by type	–	1	1	–	1	1
Total resource cost (£000)	–	–	–	–	37	37

Redundancy disclosed in the table above relate to 1 (2017-18: one) full time equivalent staff, this was paid by the MOJ and therefore no costs incurred by the LAA directly in 2018-19.

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

Consultancy costs

Expenditure on consultancy in 2018-19 was £22k (2017-18: £24k).

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 2019. 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 subject to audit.

Losses and special payments

	2018-19		2017-18	
	Volume	£000	Volume	£000
Write-offs	1,513	1,649	1,646	2,220
Special payments	–	–	–	–
Total value of losses	1,513	1,649	1,646	2,220

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

There were no supplier balances written off over £300k (2017-18: no supplier balance written off). There are no remote contingent liabilities or fees and charged in 2018-19 (0 in 2017-18)

Potential loss

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.

The 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 the future Accounts.

Special payments

There have been no special payments in 2018-19 to report (2017-18: no special payments).

Signed for and on behalf of the Legal Aid Agency

Shaun McNally CBE

Chief Executive and Accounting Officer

Legal Aid Agency

27 June 2019

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 2019 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, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Accountability Report that is described in that report as having been audited.

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 2019 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 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 Legal Aid Agency 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.

Conclusions relating to going concern

I am required to 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 Legal Aid Agency's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. 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. I have nothing to report in these respects.

Responsibilities of the Accounting Officer for the financial statements

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

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 Legal Aid Agency's internal control;

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- 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 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.

Other information

The Chief Executive as Accounting Officer is responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. 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 parts of the Accountability Report to be audited have been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000;
- In the light of the knowledge and understanding of the entity and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report and Accountability Report; 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 and have been prepared in accordance with the applicable legal requirements.

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 Accountability Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- The Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General
01 July 2019

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

Financial statements



Financial statements of the Legal Aid Agency for the year ended 31 March 2019

Legal Aid Agency Statement of Comprehensive Net Expenditure for the year ended 31 March 2019

		2018-19	RESTATED 2017-18
	Note	£000	£000
Rental income		(297)	(653)
Statutory charge interest		(7,715)	(5,807)
Income under the legal aid schemes	6	(48,931)	(49,196)
Total operating income		(56,943)	(55,656)
Staff costs	3	45,376	47,522
Expenditure under the legal aid schemes	4	1,740,034	1,708,802
Depreciation and impairment costs	8 & 9	10,527	8,757
Other operating expenditure	5	36,341	31,258
Total operating cost		1,832,278	1,796,339
Net operating costs for the year		1,775,335	1,740,683
OTHER COMPREHENSIVE EXPENDITURE			
Items which will not be reclassified to net operating costs			
Net loss/gain on revaluation of intangibles		(354)	(646)
Net loss/gain on revaluation of property, plant and equipment		(5)	(42)
Total comprehensive expenditure		1,774,976	1,739,995

All income and expenditure are derived from continuing operations.

The notes on pages 74 to 103 form part of these financial statements.

Legal Aid Agency
Statement of Financial Position
Balance at 31 March 2019

	Note	31 MARCH 2019 £000	RESTATED 31 MARCH 2018 £000	RESTATED 1 APRIL 2017 £000
NON-CURRENT ASSETS				
Intangible assets	8	52,043	55,931	56,161
Property, plant and equipment	9	1,319	2,798	4,247
Total non-current assets		53,362	58,729	60,408
CURRENT ASSETS				
Trade and other receivables	11	164,467	149,510	135,918
Cash and cash equivalents	12	45,201	26,781	10,894
Total current assets		209,668	176,291	146,812
Total assets		263,030	235,020	207,220
CURRENT LIABILITIES				
Trade and other payables	13	(188,650)	(188,855)	(196,569)
Provisions for liabilities and charges	15	(602,777)	(574,335)	(536,574)
Total current liabilities		(791,427)	(763,190)	(733,143)
Total assets less current liabilities		(528,397)	(528,170)	(525,923)
NON-CURRENT LIABILITIES				
Trade and other payable	13	(521)	(448)	(571)
Provisions for liabilities and charges	15	(598)	(671)	(2,063)
Total non-current liabilities		(1,119)	(1,119)	(2,634)
Assets less liabilities		(529,516)	(529,289)	(528,557)
TAXPAYERS' EQUITY				
Revaluation Reserve		3,061	3,245	3,165
General Reserve		(532,577)	(532,534)	(531,722)
Total equity		(529,516)	(529,289)	(528,557)

The notes on pages 74 to 103 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
 27 June 2019

Legal Aid Agency Statement of Cash Flows for the year ended 31 March 2019

	Note	2018-19 £000	RESTATED 2017-18 £000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net operating cost		(1,775,335)	(1,740,683)
Adjustments for notional and non cash transactions		25,317	17,994
Intra-departmental balances settled via General Reserves		(3,486)	2,618
Loss/(gain) on impairment, revaluation and loss on disposal	5	–	–
Increase in trade and other receivables		(14,957)	(13,592)
Decrease in trade and other payables		(132)	(7,837)
Less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		125	915
Movement in provisions		28,369	36,369
Net cash outflow from operating activities		(1,740,099)	(1,704,216)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of intangible assets	7	(4,464)	(7,171)
Purchase of property, plant and equipment	7	(379)	–
Net cash outflow from investing activities		(4,843)	(7,171)
CASH FLOWS FROM FINANCING ACTIVITIES			
Supply funding from the Ministry of Justice: revenue		1,758,519	1,720,884
Supply funding from the Ministry of Justice: capital		4,843	6,390
Net cash inflow from financing activities		1,763,362	1,727,274
Net decrease in cash and cash equivalents in the year		18,420	15,887
Cash and cash equivalents at the beginning of the year		26,781	10,894
Cash and cash equivalents at the end of the year	12	45,201	26,781

The notes on pages 74 to 103 form part of these financial statements.

Legal Aid Agency

Statement of Changes in Taxpayers' Equity

for the year ended 31 March 2019

This statement shows the movement in the year on the different reserves held by the Agency. The Revaluation Reserve reflects the change in asset values that have not been recognised as income or expenditure. The General Fund represents the total assets less liabilities of the agency, to the extent that the total is not represented by other reserves.

	Note	REVALUATION RESERVE £000	RESTATED GENERAL RESERVE £000	TOTAL
Balance at 1 April 2017		3,165	(531,722)	(528,557)
CHANGES IN TAXPAYERS' EQUITY FOR 2016-17				
Supply funding from the Ministry of Justice: revenue		–	1,720,884	1,720,884
Supply funding from the Ministry of Justice: capital		–	6,390	6,390
Net operating cost for the year		–	(1,740,683)	(1,740,683)
OTHER COMPREHENSIVE EXPENDITURE				
Net gain on revaluation		688	–	688
NON CASH ADJUSTMENT				
Intra-departmental adjustment		–	2,618	2,618
Notional recharge from the Ministry of Justice	5	–	9,181	9,181
Notional external audit fee	5	–	190	190
MOVEMENT IN RESERVES				
Transfers from revaluation reserve		(608)	608	–
Balance at 31 March 2018		3,245	(532,534)	(529,289)
CHANGES IN TAXPAYERS' EQUITY FOR 2017-18				
Supply funding from the Ministry of Justice: revenue		–	1,758,519	1,758,519
Supply funding from the Ministry of Justice: capital		–	4,843	4,843
Net operating cost for the year		–	(1,775,335)	(1,775,335)
OTHER COMPREHENSIVE EXPENDITURE				
Net gain on revaluation		359	–	359
NON CASH ADJUSTMENT				
Intra-departmental adjustment		–	(3,528)	(3,528)
Notional recharge from the Ministry of Justice	5	–	14,720	14,720
Notional external audit fee	5	–	195	195
MOVEMENT IN RESERVES				
Transfers from revaluation reserve		(543)	543	–
Balance at 31 March 2019		3,061	(532,577)	(529,516)

The notes on pages 74 to 103 form part of these financial statements.

Legal Aid Agency

Notes to the Financial Statements for the year ended 31 March 2019

Note 1 – Statement of accounting policies

The financial statements have been prepared in accordance with the Government Financial Reporting Manual (FRoM) 2018 to 2019, under the direction issued by HM Treasury under the Government Resources and Accounts Act 2000. The accounting policies contained in the FRoM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public-sector context. Where the FRoM 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 date 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 ending 31 March 2019.

New and amended standards adopted

There have been new standards adopted in the year to 31 March 2019 which are discussed below:

IFRS 9: Financial Instruments (replacing IAS 39) aimed to simplify financial instrument accounting and more closely align accounting and practices with how instruments are used in the business. IFRS 9 has been assessed and has not had a material impact on the Accounts. The change in the standard requires the LAA's financial assets, which are held to collect contractual cashflows only, to be measured at amortised cost. Previously these assets were classified as loans and receivables, measured at amortised cost. There has been no financial impact on the LAA's financial assets in adopting IFRS 9.

IFRS 15: Revenue from contracts with customers aimed to replace a significant amount of existing guidance and reduce inconsistencies by setting a new principles-based Standard. Details of the impact of adopting this standard are included in note 22.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2018 and not adopted early

IFRS 16 will change the way LAA recognises, measures, presents and discloses leases that it holds. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The full impact of IFRS 16: Leases on LAA will not be determined until it has been adopted for use in the public sector by the FReM and uncertainties surrounding the valuation methodology, and the full scope of the standard have been resolved. Effective from 2020-21.

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.

Recoveries from damages and statutory charge

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

Crown Court Means Testing

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

d) Expenditure

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

e) Cash and cash equivalents

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

f) Provisions

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

Amounts outstanding on funded cases

The LAA recognises its liability to pay for work completed at 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

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.

Legal costs

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

Initial recognition and measurement

Receivables are initially recognised at their gross amount adjusted to take account of the time value of money over the period in which they are expected to be collected, based on 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 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 (CCMT)

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 Standard (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 receives supply funding from the MoJ periodically throughout the year and it is accounted for on a cash basis.

Intra-departmental adjustment

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

n) Contingent liabilities and assets

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

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

o) Events after the reporting period

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

p) Assets under construction

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

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

q) Intangible assets

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

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

The LAA applies a capitalisation threshold for intangible assets of £10,000.

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 financial assets

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

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

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

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

u) Revaluation

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

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

v) Notional recharges

Notional recharges from the Ministry of Justice

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

Notional audit fee

The costs of the external audit performed by the National Audit Office on behalf of the Comptroller and Audit 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 the FReM, the LAA accounts for these as a defined contribution scheme. The LAA recognises contributions payable to defined contribution schemes as an expense in the year in which it is incurred, and the legal or constructive obligation is limited to the amount that it agrees to contribute to the fund.

y) Segmental reporting

Operating segments are determined 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 2019

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 costs 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 this 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 cost by segment for the year ended 31 March 2019:

	2018-19	RESTATED 2017-18
	£000	£000
FUND		
Legal Help	97,882	99,088
Civil Representation	623,374	579,971
Crime Lower	263,538	270,887
Crime Higher	646,985	655,462
CENTRAL FUNDS	56,854	53,889
ADMINISTRATION	86,702	81,386
Net operating costs for the year	1,775,335	1,740,683

Details of the restatement are in note 22.

Note 3 – Staff Costs

	2018-19	2018-19	2018-19	2017-18	2017-18	2017-18
	Permanently employed staff	Other	Total	Restated permanently employed staff	Restated other	Total
	£000	£000	£000	£000	£000	£000
Salaries and wages	34,660	485	35,145	36,209	830	37,039
Social security costs	3,502	–	3,502	3,690	–	3,690
Other pension costs	6,676	–	6,676	6,780	–	6,780
	44,838	485	45,323	46,679	830	47,509
Less recoveries in respect of outward secondments	23	–	23	(53)	–	(53)
Redundancy	–*	–	–	37	–	37
	44,861	485	45,346	46,663	830	47,493
Non-Executive Board Members (fees and benefits)	30	–	30	29	–	29
	30	–	30	29	–	29
Total	44,891	485	45,376	46,692	830	47,522

*Redundancy costs disclosed in the table above relate to 1 (2017-18: one) full time equivalent staff, this was paid by the MOJ and therefore no costs incurred by the LAA directly.

Note 4 – Expenditure under the legal aid schemes

	2018-19	RESTATED 2017-18
	£000	£000
CIVIL REPRESENTATION		
Solicitors' charges, counsel fees and disbursements (provided in year – note 15)		
Bills submitted in year	650,981	600,043
Provision for work in progress movement	(7,027)	(498)
Refund of contributions	599	567
Costs of successful unassisted parties	670	667
Debt impairment and write offs	2,485	(3,826)
Discount of debt	(1,977)	548
	645,731	597,501
CIVIL LEGAL HELP		
Solicitors' charges, counsel fees and disbursements (provided in year – note 15)		
Bills submitted in year	93,589	92,570
Provision for work in progress movement	(694)	758
Direct services	4,991	5,244
Debt impairment and write offs	(266)	126
Discount of debt	(124)	30
	97,496	98,728
CRIME LOWER		
Solicitors' charges, counsel fees and disbursements (provided in year – note 15)		
Bills submitted in year	234,556	264,813
Provision for work in progress movement	23,539	824
Direct services and public defender service	3,897	3,718
Debt impairment and write offs	(229)	(152)
Discount of debt	(55)	(17)
	261,708	269,186
CRIME HIGHER		
Solicitors' charges, counsel fees and disbursements (provided in year – note 15)		
Bills submitted in year	654,606	642,723
Provision for work in progress movement	3,630	32,110
Direct services and public defender service	379	291
Debt impairment and write offs	14,761	12,442
Discount of debt	4,869	1,932
	678,245	689,498
CENTRAL FUNDS		
Central fund expenditure (provided in year – note 15)		
Defence cost orders awarded in Crown and magistrates' courts	34,966	36,923
Provision for work in progress movement	9,335	4,441
Interpreters and other	12,553	12,525
	56,854	53,889
Total	1,740,034	1,708,802

Details of the restatement are in note 22.

Note 5 – Other operating expenditure

	2018-19	2017-18
	£000	£000
Accommodation and related costs	2,557	2,147
Office, IT and service running costs	2,469	2,535
Staff and committee member related costs	920	937
Operating leases	2,186	2,695
Legal and professional costs	907	1,122
Service level agreements with HMCTS	199	140
Other administration costs	443	358
	9,681	9,934
NON-CASH COSTS		
Loss on disposal of assets	–	–
Movement in provision for legal costs and dilapidation	64	(486)
Notional recharge from the MoJ	14,720	9,181
Functional leadership recharge from the MoJ	11,806	12,573
Notional external audit fee	195	190
Operating lease amortisation	(125)	(134)
	26,660	21,324
Total	36,341	31,258

Note 6 – Income under the legal aid schemes

	2018-19	RESTATED 2017-18
	£000	£000
CIVIL REPRESENTATION		
Contributions by funded clients	3,842	4,795
Costs recoverable	–	–
Recoveries from damages and statutory charge	11,021	7,103
	14,863	11,898
CRIMINAL CASES		
Crown Court recoveries	33,873	37,298
Recovery of defence costs	195	–
	34,068	37,298
Total	48,931	49,196

Details of the restatement are in note 22.

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

	2018-19	2017-18
	£000	£000
Additions of intangible assets (note 8)	4,464	6,390
Decrease/(increase) in capital accrual	–	781
Total intangible asset purchases per Statement of Cash Flows	4,464	7,171
Additions of property, plant and equipment (note 9)	379	–
Total property, plant and equipment purchases per Statement of Cash Flows	379	–

Note 8 – Intangible assets

	ASSETS UNDER CONSTRUCTION	COMPUTER SOFTWARE	TOTAL
	£000	£000	£000
Cost at 1 April 2018	5,647	111,264	116,911
Reclassifications	(5,146)	5,502	356
Additions	4,464	–	4,464
Transfers to the MoJ	(42)	–	(42)
Revaluations	–	840	840
Cost at 31 March 2019	4,923	117,606	122,529
Amortisation at 1 April 2018	–	60,980	60,980
Reclassifications	–	–	–
Charged in year	–	9,020	9,020
Transfers to the MoJ	–	–	–
Revaluations	–	486	486
Amortisation at 31 March 2019	–	70,486	70,486
Net book value at 31 March 2019	4,923	47,120	52,043

The total additions include £356k (2018: £356k) capital accruals at 31 March 2019.

The revaluation reserve balance of £3,061k in Statement of Taxpayer's Equity includes £2,370k (2017-18: £2,559k) relating to intangible assets at 31 March 2019.

All intangible assets are owned by the LAA.

	ASSETS UNDER CONSTRUCTION	COMPUTER SOFTWARE	TOTAL
	£000	£000	£000
Cost at 1 April 2017	18,480	90,337	108,817
Reclassifications	(19,223)	19,117	(106)
Additions	6,390	–	6,390
Disposals	–	–	–
Transfers from the MoJ	–	–	–
Revaluations	–	1,810	1,810
Cost at 31 March 2018	5,647	111,264	116,911
Amortisation at 1 April 2017	–	52,656	52,656
Reclassifications	–	–	–
Charged in year	–	7,160	7,160
Transfers from the MoJ	–	–	–
Revaluations	–	1,164	1,164
Amortisation at 31 March 2018	–	60,980	60,980
Net book value at 31 March 2018	5,647	50,284	55,931

Note 9 – Property, plant and equipment

	ASSETS UNDER CONSTRUCTION	FURNITURE AND EQUIPMENT	INFORMATION TECHNOLOGY	TOTAL
	£000	£000	£000	
Cost at 1 April 2018	308	239	19,840	20,387
Reclassifications	(7)	–	(349)	(356)
Additions	–	379	–	379
Revaluations	–	–	146	146
Cost at 31 March 2019	301	618	19,637	20,556
Depreciation at 1 April 2018	–	239	17,350	17,589
Reclassifications	–	–	–	–
Charged in year	–	–	1,507	1,507
Revaluations	–	–	141	141
Depreciation at 31 March 2019	–	239	18,998	19,237
Net book value at 31 March 2019	301	379	639	1,319

The revaluation reserve balance of £3,061k in Statement of Taxpayer's Equity includes £692k (2017-18: £686k) relating to property, plant and equipment at 31 March 2019.

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

	ASSETS UNDER CONSTRUCTION	FURNITURE AND EQUIPMENT	INFORMATION TECHNOLOGY	TOTAL
	£000	£000	£000	
Cost at 1 April 2017	202	239	19,457	19,898
Reclassifications	106	–	–	106
Additions	–	–	–	–
Revaluations	–	–	383	383
Cost at 31 March 2018	308	239	19,840	20,387
Depreciation at 1 April 2017	–	239	15,412	15,651
Reclassifications	–	–	–	–
Charged in year	–	–	1,597	1,597
Revaluations	–	–	341	341
Depreciation at 31 March 2018	–	239	17,350	17,589
Net book value at 31 March 2018	308	–	2,490	2,798

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 2019, £75.4m (2017-18: £74.3m) of statutory charge debt was due, the principal of which carried a fixed rate of interest.

Money received by the LAA on behalf of funded clients is held on deposit until the case is concluded. Interest is paid to funded clients by reference to the London Inter Bank Offered Rate, at the rate of 0.5% per annum less the rate payable on damages on deposit in the general account.

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 2019.

The LAA considers its exposure to credit risk resulting the fair values of its financial assets to be:

	2018-19	2017-18
	£000	£000
Cash and cash equivalents	45,201	26,781
Trade and other receivables	164,467	149,510
Third party assets	13,093	17,455
	222,761	193,746

Cash and cash equivalents comprise bank balances held with commercial banks, including those administered through the GBS, with original maturities of three months or less. As at 31 March 2019 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 £227.5m (2017-18: £212.4m).

The majority of the LAA's trade and other receivables are the result of a statutory charge, £75.4m (2017-18: £74.3m) out of a total receivables balance after impairment of £164.5m (2017-18: £149.5m).

A high proportion of these are secured on property and settlement is deferred until the property is sold. These, along with other receivables, carry an impairment provision based on expected settlement receipts.

The LAA provides for impairment of receivables based on historical cash collection experience and management assessment of likely recoveries, for each category of debt.

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, the expected remittance profiles, and the discount rate is 3.70% nominal and 0.70% real (2017-18: 3.70% nominal and 0.70% real).

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

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

ASSUMPTIONS TESTED	INCREASE/(DECREASE) IN NET FINANCIAL ASSET		
	Assumption	2018-19 £m	2017-18 £m
Cash received	Evenly through the year	1.0	1.1
Predicted cash receipts	+10%	12.4	10.1
Predicted cash receipts	-10%	(12.3)	(10.7)
Discount rate	+1%	(5.4)	(6.2)
Discount rate	-1%	5.9	6.1

Using these reasonably possible alternative assumptions, the fair value of the financial assets at 31 March 2019 could be higher by £19.3m (2017-18: £17.3m) or lower by £16.3m (2017-18: £16.9m).

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 WIP 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. Where no override to the model has been made, sensitivity of that assumption has been manually applied where appropriate.

Based on the analysis completed, the following sensitivities are to be disclosed:

All schemes excluding Civil Representation and Crime Higher

ASSUMPTIONS TESTED	INCREASE IN NET FINANCIAL LIABILITY		(DECREASE) IN NET FINANCIAL LIABILITY	
	Assumption	£m	Assumption	£m
Forecast spend	2.3%	1.2	-8.1%	(4.4)
Case duration	6.0%	6.2	-5.5%	(5.7)
Price profiles	7.8%	4.1	-12.0%	(6.2)

The impact of the above reasonable alternatives to the inputs have been quantified as follows; forecast spend +2.3% to -8.1%, case duration +6.0% to -5.5% and price profiles +7.8% to -12.0%. Using these reasonable alternative assumptions, WIP as at 31st March 2019, could be higher by up to +9.1% (£11.5m) or lower by up to -12.8% (-£16.3m).

The above assumptions exclude the model variables used in the calculation of the civil representation or crime higher Graduated Fee Scheme (GFS) work in progress provisions.

Civil Representation

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

Assumptions tested

ASSUMPTIONS TESTED	INCREASE		(DECREASE)	
	Assumption	£m	Assumption	£m
Transition cost and duration profile*	March 2018 profiles	5.5	March 2018 profiles	(5.5)
Billing duration**	110 days%	3.9	80 days%	(4.1)
Dormancy assumption***	910 days	10.1	N/A	N/A

*In order to estimate the provision, profiles outlining the timing and magnitude of costs on civil representation cases are calculated. There is a degree of uncertainty in the calculation of these profiles, particularly due to the inherent time lag. We therefore make the assumption that the level of variance could be equal to the variance between this year's profile and last years'.

**It can take some time for Legal Aid providers to compile and submit their bills to us once work has completed on a case. The estimate of the provision assumes that the average delay will be equivalent to that seen in the preceding quarter, however this does vary to a small degree over time. We therefore make the assumption that this delay could vary by up to 15 days in either direction.

***In estimating the provision, an assumption is made that cases that have had no financial activity for two years or more are 'dormant', and will not go on to have further activity, and we therefore generate no provision in respect of them. There is a risk that this underestimates the provision, since a small proportion of these cases may indeed go on to have further financial activity. We therefore assume that the dormancy period could be longer by 6 months, taking it to two and a half years.

The above inputs are case data driven, with an overlay of management judgement, for example choosing the number of year's historical case data to use in creating historical profiles. It should be noted the inherent sensitivity of the Civil Representation WIP provision is such that relatively small percentage movements in the above inputs could lead to the estimate crystallising at a materially different amount. 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 2019 could be higher by up to +6.1% (£19.5m) or lower by up to -3.1% (-£9.5m).

Crime Higher

The Crime Higher GFS WIP estimates are calculated by considering cohorts of case starts and modelling their progress through the legal aid system, considering when the case completes, when the work is done on the case and the different types of bills that may be incurred in order to reflect the way the scheme operates as closely as possible. A separate calculation is then done to estimate the amount that has already been paid on these cases through interim payments.

Below are the reasonable alternative scenarios modelled. These relate to the flexing of certain assumptions, such as the amount of cases expected to close or the amount of time a case takes to go through the system.

Assumptions tested

ASSUMPTIONS TESTED	INCREASE		(DECREASE)	
	Assumption	£m	Assumption	£m
Price Profiles	10.0%	26.3	-10.00%	(26.3)
Completion Rates	2.5%	27.2	-2.50%	(24.3)
Case Durations	10.0%	33.5	-10.00%	(28.1)

Relatively small changes in these inputs could lead to a material difference in the work in progress realised. Assumptions are reviewed annually to ensure they remain appropriate.

Using these reasonable alternative assumptions, the fair value of the financial liabilities at 31 March 2019 could be higher by up to +24.8% (£87.0m) or lower by up to -25.7% (-£78.7m).

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

	2018-19	2017-18
	£000	£000
AMOUNTS FALLING DUE WITHIN ONE YEAR:		
Gross debt	391,960	361,901
Impairment provision	(227,493)	(212,391)
Total	164,467	149,510
BY COMPONENT:		
Contributions due from funded clients	6,762	7,366
Costs to be recovered	829	840
Damages	–	112
Amounts due from service providers	39,115	21,798
Recovery of defence costs	38,059	38,417
Prepayments and accrued income	326	692
Intra-departmental debtors	2,632	4,250
Other receivables	1,325	1,752
Statutory charge and interest	75,419	74,283
Total	164,467	149,510

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:

	2018-19	2017-18
	£000	£000
Statutory charge	47,103	48,860
Interest accrued to date	28,316	25,423
Total	75,419	74,283

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

	2018-19	2017-18
	£000	£000
Balance at 1 April	26,781	10,894
Net change in cash and cash equivalent balances	18,420	15,887
Balance at 31 March 2019	45,201	26,781

The balances at 31 March 2019 were held at:

	2018-19	2017-18
	£000	£000
Government Banking Service	37,809	18,431
Commercial banks	7,392	8,350
Total cash and cash equivalents	45,201	26,781

Note 13 – Trade payables and other liabilities

	2018-19	2017-18
	£000	£000
Amounts falling due within one year:		
Amounts due to solicitors, counsel and advice agencies	67,414	64,988
Contribution refunds due to funded clients	1,369	1,373
Accruals and deferred income	107,087	99,676
Other taxation and social security costs	1,481	1,620
Intra-departmental creditors	3,891	10,636
Other payables	7,408	10,562
Total	188,650	188,855

	2018-19	2017-18
	£000	£000
Amounts falling due after one year:		
Accruals and deferred income	521	448

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.

CARRYING AMOUNTS AND FAIR VALUES	2018-19	2017-18
	£000	£000
Trade and other receivables	164,467	149,510
Cash and cash equivalents	45,201	26,781
Trade payables and other liabilities	(189,171)	(189,303)

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.

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 3.70% real and 0.70% nominal (2017-18: 3.70% real, 0.70% nominal). 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.

The movement in financial assets in the financial year was as follows;

Opening fair value of trade receivables at 1 April 2018	149,510
Movement in prepayments, accruals, intra-departmental receivables and other receivables	(2,410)
Increase in gross debt	35,181
Fair value adjustment of debt to SOCNE	(2,712)
Increase in impairment of debt to SOCNE	(15,102)
Closing Balance of trade receivables at 31 March 2019	164,467

Note 15 – Provisions for liabilities and charges

	PROVISION FOR AMOUNTS OUTSTANDING ON FUNDED CASES £000	PROVISION FOR AMOUNTS OUTSTANDING ON PRIVATELY FUNDED CASES (CENTRAL FUNDS) £000	PROVISION FOR LEGAL COSTS £000	PROVISION FOR DILAPIDATIONS £000	PROVISION FOR EARLY DEPARTURE £000	TOTAL £000
At 1 April 2018	560,307	12,496	190	2,013	–	575,006
Provided in year	1,653,154	44,301	503	25	–	1,697,983
Provisions utilised in year	(1,633,732)	(34,966)	(136)	(342)	–	(1,669,176)
Provisions not required written back	–	–	(286)	(152)	–	(438)
At 31 March 2019	579,729	21,831	271	1,544	–	603,375

Restated at 1 April 2017	527,113	8,055	1,100	2,369	–	538,637
Provided in year	1,633,343	41,364	270	–	–	1,674,977
Provisions utilised in year	(1,600,149)	(36,923)	(615)	(165)	–	(1,637,852)
Provisions not required written back	–	–	(565)	(191)	–	(756)
At 31 March 2018	560,307	12,496	190	2,013	–	575,006

	PROVISION FOR AMOUNTS OUTSTANDING ON FUNDED CASES £000	PROVISION FOR AMOUNTS OUTSTANDING ON PRIVATELY FUNDED CASES (CENTRAL FUNDS) £000	PROVISION FOR LEGAL COSTS £000	PROVISION FOR DILAPIDATIONS £000	PROVISION FOR EARLY DEPARTURE £000	TOTAL £000
Analysis of expected timing of discounted flows	£000	£000	£000	£000	£000	£000
Not later than one year	579,729	21,831	271	946	–	602,777
Later than one year and not later than five years	–	–	–	387	–	387
Later than five years	–	–	–	211	–	211
At 31 March 2019	579,729	21,831	271	1,544	–	603,375

Analysis of expected timing of discounted flows (restated)	PROVISION FOR AMOUNTS OUTSTANDING ON FUNDED CASES	PROVISION FOR AMOUNTS OUTSTANDING ON 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	560,307	12,496	190	1,342	–	574,335
Later than one year and not later than five years	–	–	–	460	–	460
Later than five years	–	–	–	211	–	211
At 31 March 2018	560,307	12,496	190	2,013	–	575,006

Details of the restatement are in note 22.

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 Financial risk identification and management (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 2019 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 2018-19 £m	LAND AND BUILDINGS 2017-18 £m
Not later than one year	1,370	1,485
Later than one year and not later than five years	3,906	2,032
Later than five years	3,021	1,040
Total	8,297	4,557

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 are committed is as follows:

	31 MARCH 2019 £000	31 MARCH 2018 £000
Not later than one year	3,928	605
Later than one year and not later than five years	2,819	–
Present value of obligations	6,747	605

Note 18 – Contingent assets and liabilities

At 31 March 2019, the LAA were investigating no employment tribunals (2017-18: two) and zero ongoing legal challenges (2017-18: two). The values of the contingent liabilities are not disclosed given the sensitive nature of these cases.

The LAA have two contingent assets in relation to costs orders from legal proceedings with a total value of £22.43m (2017-18: two with a total value of £0.27m).

One of the contingent assets relates to an award of £22.14m as result of a legal action to recover historic overpayments. This judgement is currently subject to appeal, and the outcome of this will not be known until later in 2019. The award has been recognised as a contingent asset until the outcome of the appeal is determined. If the appeal is unsuccessful the agency will seek to recover the amount awarded, however it is unlikely that the full amount will be recovered, and therefore the actual amount recognised will be significantly lower than the amount awarded.

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 & 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 2018-19 no Board Members or other related parties have undertaken any transactions with the LAA (2017-18: no transactions).

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 2018	GROSS INFLOWS	GROSS OUTFLOWS	31 MARCH 2019
	£000	£000	£000	£000
Damages*	6,240	2,622	(5,005)	3,857
Crown Court Means Test**	11,215	18,397	(20,376)	9,236
Total third party assets held as cash	17,455	21,019	(25,381)	13,093

* 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.

Note 22 – Prior period adjustment

Following the adoption of IFRS 15 by HM Treasury's Financial Reporting Manual the Agency undertook an exercise to identify the impact of implementing the new standard on revenue.

Previously the Agency recognised both income and expenditure in civil cases where costs are determined by a settlement between the parties rather than a detailed assessment of the costs by the court. This element of income and expenditure was referred to as Adjusted Purposes Only (APO).

On review, it was concluded that income relating to APO did not meet the definition as prescribed under IAS 18: Revenue. The Agency therefore should not have previously recognised any income or expenditure for APO. The provision for work in progress for Civil Representation cases had previously included an element relating to APO expenditure, serving to overstate the overall provision by £70m in 2017-18. As this is material to the accounts, the Agency has restated the accounts to correct this prior period error. The prior year comparators have been restated to reflect the impact of the error. This has impacted all the primary statements in addition to notes 2, 4, 6 and 15.

The tables below set out the adjustments made to the statements

Statement of Financial Position as at 1 April 2017

	As reported	Adjustments	Restated
Provisions for liabilities and charges	626,674	90,100	536,574
General Reserve	621,822	90,100	531,722

Statement of Financial Position as at 31 March 2018

	As reported	Adjustments	Restated
Provisions for liabilities and charges	643,974	69,639	574,335
General Reserve	602,173	69,639	532,534

Statement of Changes in Taxpayer's Equity for the year ended 31 March 2018

	As reported	Adjustments	Restated
General Reserve Balance at 1 April 2017	621,822	90,100	531,722
Net operating cost for the year	1,720,222	20,461	1,740,683

Statement of Cashflows for the year end 31 March 2018

	As reported	Adjustments	Restated
Net operating cost	1,720,222	20,461	1,740,683
Movement in provisions	15,908	20,461	36,369

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