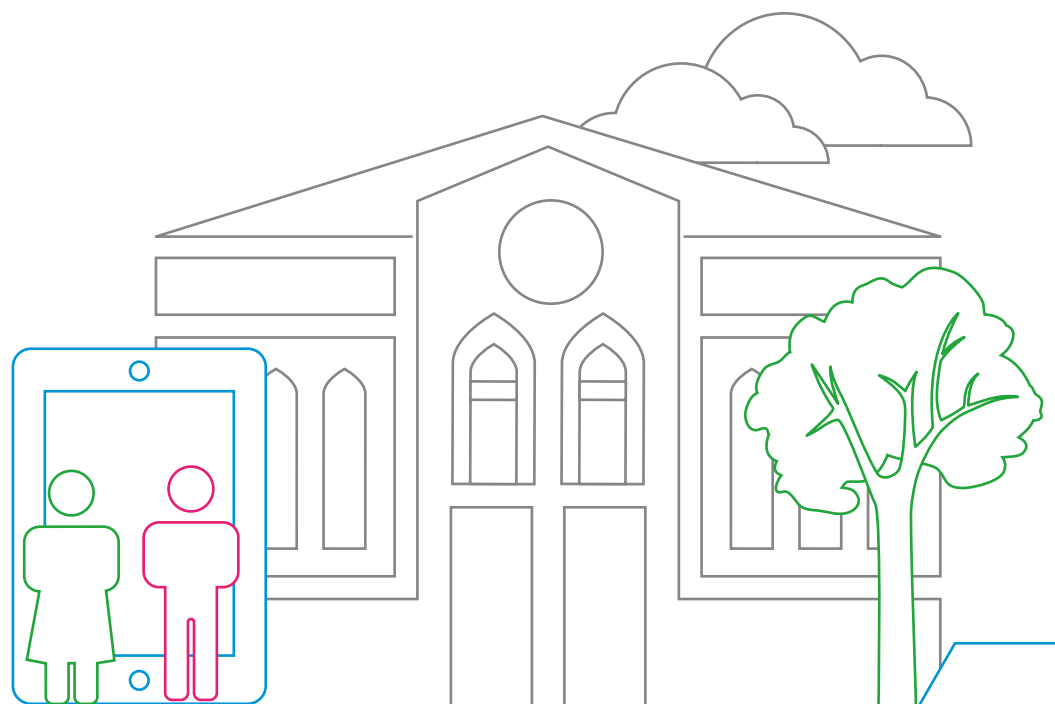




HM Courts &
Tribunals Service

HM Courts & Tribunals Service

Trust Statement 2018-19



HM Courts & Tribunals Service

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HM Courts & Tribunals Service is an executive agency of the Ministry of Justice.
Presented to the House of Commons pursuant to section 7 of the
Government Resources and Accounts Act 2000.

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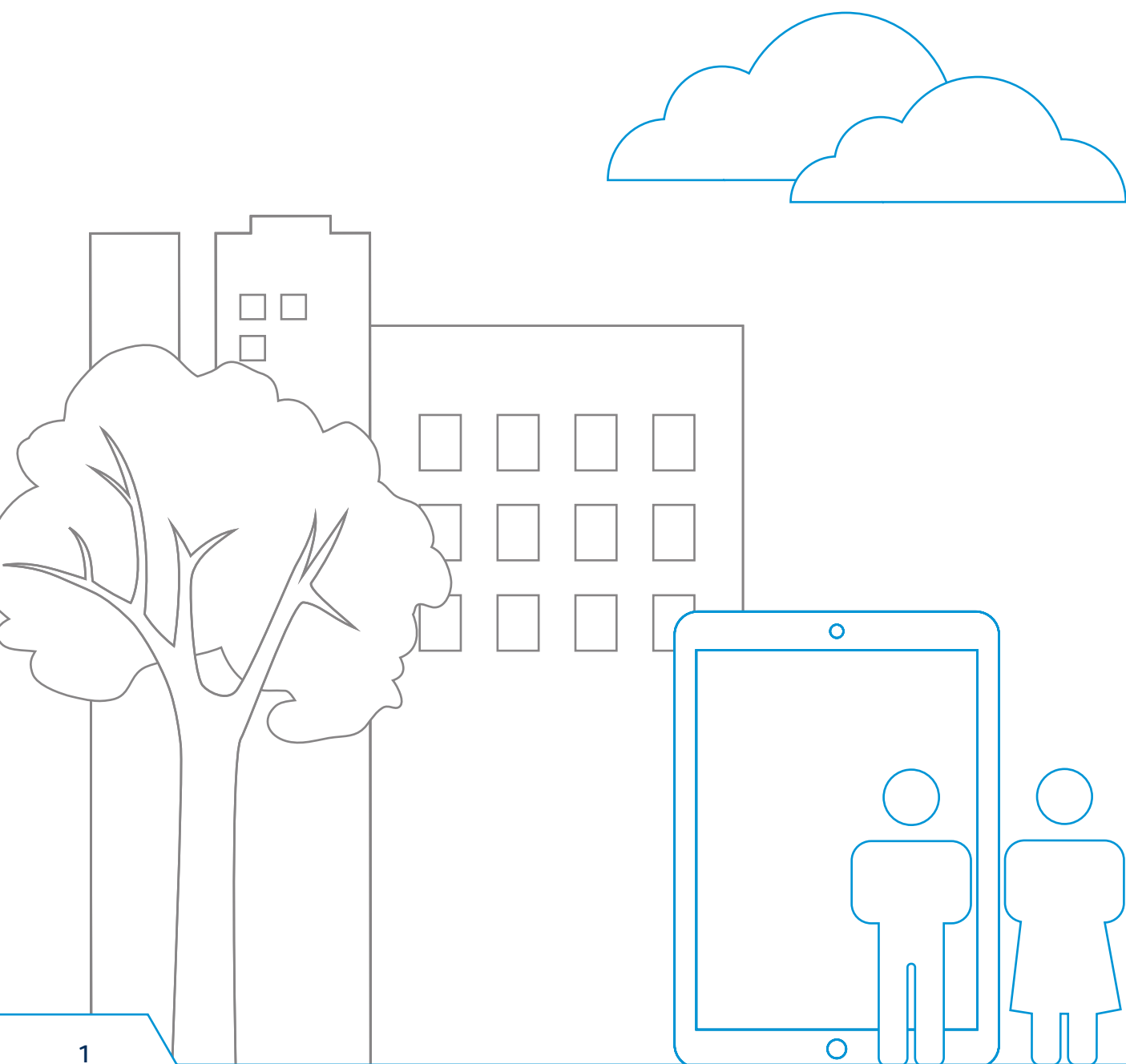
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Section 1: Introductions



Accounting Officer's Foreword to the Trust Statement

I am pleased that, for a sixth year, the Comptroller and Auditor General has been able to provide an unqualified audit opinion on HMCTS's Trust Statement. Once again, I would like to pay tribute to the hard work that people across HMCTS and our partner agencies have put in to the enforcement and collection of the range of financial impositions for which we are collectively responsible.

This year, our programme of courts and tribunals reform has scaled up significantly, with our new online services having been used by more than 100,000 people, and good progress made both with our next phase of services and through the use of fully video hearings for suitable cases. I am delighted that we are continuing to deliver our vision of a justice system fit for the 21st century and designed around what the people who use our services want and need.

Our programme of reform is being delivered through close working with partners across the justice system. In the area of financial impositions, this collective responsibility is best illustrated by the enforcement of confiscation orders, one of the principal means by which the government deprives criminals of the proceeds of their crimes. As a result of the determination of all of the agencies with responsibility in this area, more than £166million has been collected, an increase of £28.6million from 2017-18. We will continue to work with our partners to ensure that we use all available enforcement sanctions to collect financial impositions as effectively as possible.

During the year, we had to take the decision to discontinue the Transforming Compliance and Enforcement Programme due to it no longer being affordable within the Department's funding allocation for the current spending review period. While this was undoubtedly disappointing, since its inception in 2016, the programme was able to recover more than £37million of fines that were previously considered uncollectable; and we remain firmly committed to improving the service.

HMCTS will continue to work with our partners to do everything we can to make sure that offenders pay what they owe and that justice is delivered.

Susan Acland-Hood
Chief Executive and Accounting Officer

Introduction to the Trust Statement

Introduction

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

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

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

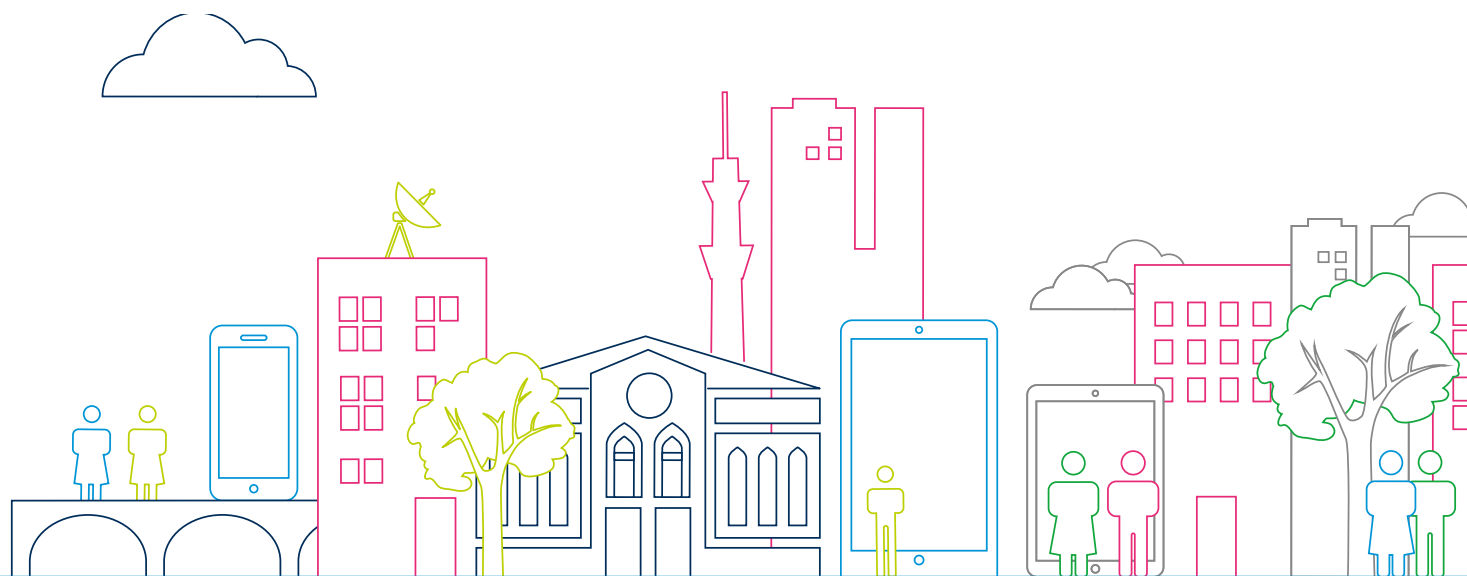
The Trust Statement accounts do not include the costs of running HM Courts & Tribunals Service. These are reported separately in the HM Courts & Tribunals Service Annual Report and Accounts 2018-19 (HC 2336) which also sets out the general direction and priorities for the Agency, details of its management and the Chief Executive's report.

Scope

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

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

Confiscation Orders – Confiscation orders are imposed by the Crown Court. These require the defendant to pay back the proceeds of acquisitive crime. The orders are made under the Proceeds of Crime Act 2002 and can result in the seizure and sale of assets. 37.5% of confiscation orders by value are enforced by agencies other than HM Courts & Tribunals Service, including the CPS, SFO, Department for Work and Pensions and local authorities. The typical composition of confiscation orders is a small volume of high value orders and a larger volume of low value orders. Confiscation order receipts are surrendered to the Home Office, with a portion subsequently returned to the Ministry of Justice (MoJ) under the asset recovery incentivisation scheme.



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

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

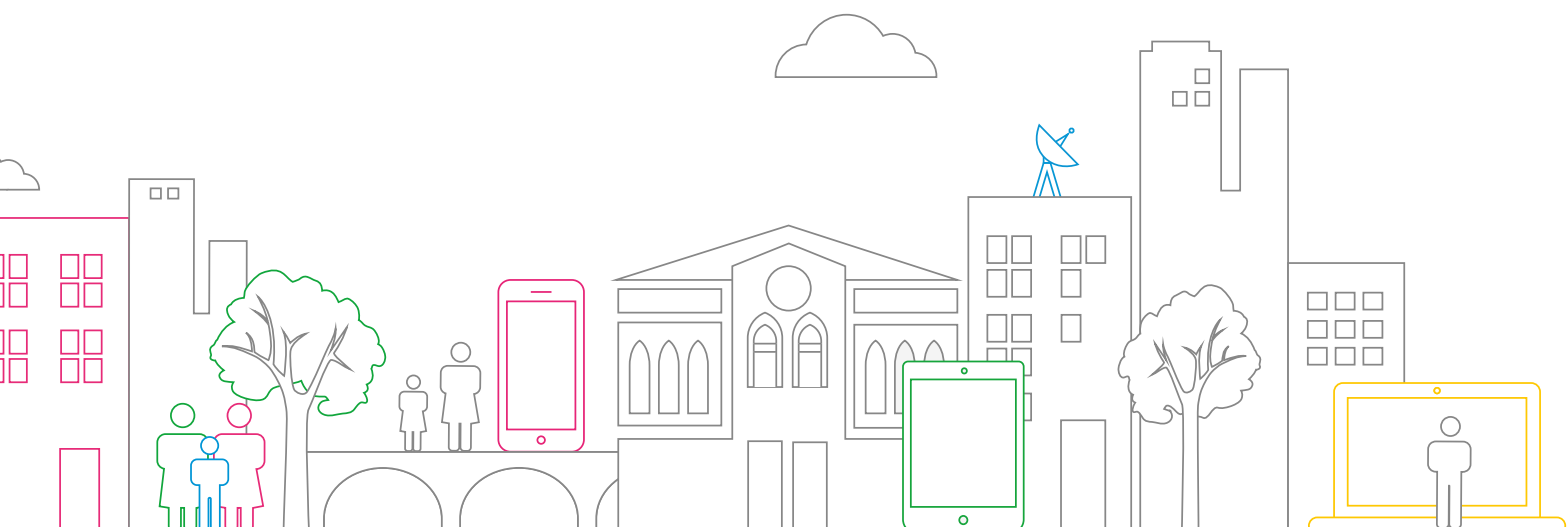
Victim surcharge – An additional surcharge is added to fines that are imposed and are enforced as described above. The receipts from the collection of the victim surcharge by HM Courts & Tribunals Service are passed to the justice reform directorate of the MoJ to fund victims' services.

Criminal Court Charge - The criminal court charge was an additional financial imposition designed to recover some of the costs of the criminal court from those convicted of an offence. On 3 December 2015 the Secretary of State laid a statutory instrument with the effect that from 24 December 2015 the criminal court charge would no longer be imposed. The charges in the 2018-19 accounts relate to remissions and appeals against levies of the criminal court charge raised in 2015-16. All charges imposed up to that point are still payable. Receipts from the criminal court charge are due to the MoJ and are recorded in the MoJ departmental accounts.

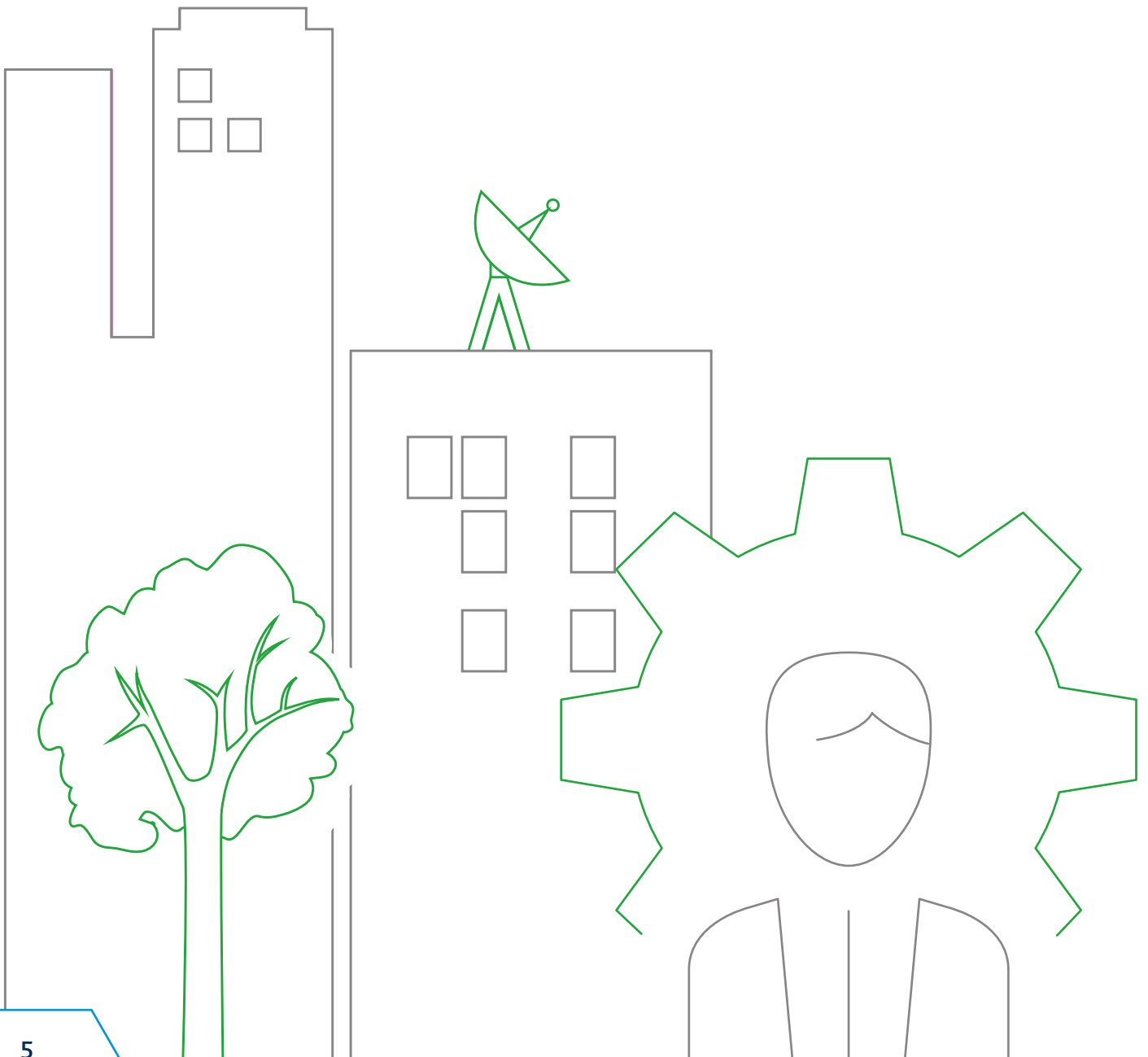
Expenditure and disbursements - Receipts from confiscation orders, prosecution costs and compensation orders are remitted to appropriate third parties, including government departments and the victims of crime. These remittances are reflected through the disbursements disclosed in the Statement of Revenue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

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

As part of the 2015 Spending Round settlement HM Treasury has permitted the MoJ to retain collections from fines and fixed penalty impositions, the amount permitted to be retained is managed within an overall income settlement for the MoJ set by HM Treasury according to their Consolidated Budgeting Guidance. The total amount retained for 2018-19 and 2017-18 is disclosed under disbursements in the Statement of Revenue and Expenditure as Revenue retained by the MoJ.



Section 2: Our performance



Business Overview

Financial performance

Life cycle of an imposition

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

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

Impositions can also take the form of a penalty notice issued by the Police or other sums which are enforced by the magistrates' court as if there has been a conviction.

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

Courts will often agree for a defendant to pay the imposition over a period of time, meaning that the debtor account will remain open for the length of time taken to pay the imposition. Note 4 of the accounts reports that £3,001million was outstanding at the start of the 2018-19 financial year.

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

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

These adjustments are reported in Note 4. During 2018-19 the overall impact of these adjustments show that HMCTS wrote back £10.7million. The most significant reason for this was the impact of the historic debt project, whereby debt previously classed as untraceable has now been reviewed and assessed as collectable.

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

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

Impositions revenue

Total imposition revenue decreased from £952million in 2017-18 to £911million in 2018-19, a decrease of £41million. This was driven mainly by a reduction in high value impositions issued in the year.

In 2018-19 there have continued to be remissions granted for Criminal Court Charges in-line with the legislative provisions, due to the cessation of the charge in December 2015. These remissions appear as a negative imposition in the Statement of Revenue and Expenditure.

Disbursements and expenditure

Total disbursements and expenditure have decreased by £3million from £909million in 2017-18 to £906million in 2018-19.

The reduction is linked to the decrease in impositions issued in the year and

- The work of the historic debt project which has resulted in a net amount of £10.7million of accounts (£61million: 2017-18) being written back in the accounts.
- Lower collections, linked to the decreased imposition levels resulting in a reduced fine retention by the Ministry of Justice

Offset by a small increase in the impairment charge for the year.

The overall impact is that there is a £38.9million reduction to £4.6million in the net revenue due to the Consolidated Fund which was £43.5million in 2017-18.

Collections

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

- Increased number of receipts for high value confiscation orders. An additional £19million being collected over that collected in 2017-18 on orders over £1million in value.
- Continued use of the Historic Debt Project resulting in an additional £13million of receipts from old outstanding debt. Receipts will continue into future years due to accounts being paid via payment plans.

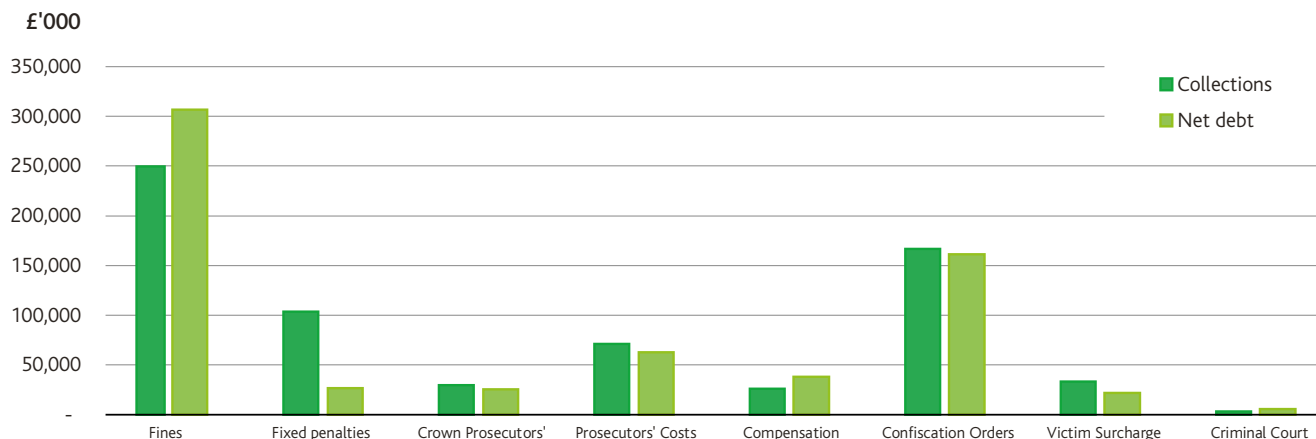
Impairment of debt

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

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

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

The largest impairment charge in the Financial Statements relates to the charge on confiscation orders, this reflects the complexity and difficulty in enforcing payment where assets may have been hidden or held overseas. The total value of debt estimated to be recoverable as at 31 March 2019 is £648million (2017-18: £644million). This is compared to the value of cash collected in the year in the chart below.



Confiscation Orders

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

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

In 2018-19, confiscation orders amounting to £179.6million were issued. Of these 7.3%, £13.1million in value were for less than £25,000, with 70% and £9.1million being collected in year from this cohort. As can be seen a high proportion of this lower value confiscation order debt has been collected in the year.

In higher value orders, it is very often the case that a significant proportion of the order value relates to assets which are either hidden or held overseas, making enforcement very difficult. When assets have been identified the process of seizing and liquidating assets e.g. houses and jewellery, can be a costly and lengthy process. This results in debt being open and uncollected for a considerably long period of time.

The gross value of confiscation order debt as at 31 March 2019 is £2,065million (2017-18: £1,961million) and has been impaired for accounting purposes to a net present value of £161million (2017-18: £152million), which is the estimate of the amount that is ultimately collectable. This is the most significant impairment as a proportion of outstanding debt in the HMCTS Trust Statement.

The reasons for the high impairment charge are linked to the nature of the debt and the aim of depriving criminals of their assets. Orders are regularly set at levels which account for assets that the court believe that the defendant has hidden, given away or moved overseas. The application of the interest charge to an account which is already overdue and unpaid increases the debt balance daily. From an accounting perspective these assets are heavily impaired as the probability of recovery in the short to medium term is low. Furthermore, it is not possible to write off confiscation order debt, it can only be cancelled by a court. This is called a judicial cancellation and is used in very specific circumstances, such as on the death of a defendant. The power to apply to discharge accounts where the defendant is deceased was introduced in June 2015.

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

	2018-19 £000	2017-18 £000
Interest (historically challenging to enforce)	748,882	657,595
Assets assessed as hidden with no other assets against which enforcement action can be taken.	493,830	432,800
Offenders deceased, deported or cannot be located	151,183	167,982
Orders subject to appeal and cannot be enforced	11,895	16,129
Assets overseas	9,646	10,596
Sub-total	1,415,436	1,285,102
Remaining confiscation order balance	649,867	676,176
Total outstanding debt	2,065,303	1,961,278

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

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

Future developments and initiatives

Transforming Compliance and Enforcement Programme (TCEP)

Following a Ministry of Justice decision, during 2018-19 we had to discontinue the TCEP programme due to it no longer being affordable within the current spending review. However, Ministers have previously set out the importance of reforming HMCTS to provide a modern and efficient service for society and improving compliance and enforcement services remains a key part of that work and HMCTS continues to look at opportunities to improve criminal enforcement process.

This focus on the need to change and improve will now become part of the business as usual activities of the compliance and enforcement services, with for example, lessons learned from the historic debt project, being applied to other areas to ensure that offenders pay what they owe. This project was part of a Cross Government debt initiative which used a specialist company, Indesser, to enrich and segment the historic debt accounts data to increase the likelihood of collection, the result of which has been that the team have collected £37million to date.

Due to the spending review limitations, replacing the current debt management and finance accounting systems will not be possible in the next financial year. However, we continue to look for opportunities to develop the current systems to meet the principles of developing processes which are intelligence led, ensuring that more information about individuals will be available to support the decision-making process, and thus enabling tailored compliance pathways to suit individual circumstances. HMCTS is also working with banks and suppliers to find new payment methods such as the use of smart phone technology to encourage more offenders to pay.

Reducing cheque volumes

HMCTS, in line with other Government Departments, is working to reduce the volume of cheques issued each month and replacing them with direct bank transfers, these being a quicker and more secure method of payment. Cheques are principally issued to compensatees and as impositions are often paid in instalments this results in multiple, potentially small value, cheques being issued to a compensatee. The move to bank transfers will expedite the process of paying compensatees as the individuals will no longer have to deposit the cheque in the bank and then wait for it to clear before they can access the funds. Over the course of the next twelve months as part of a controlled programme HMCTS aims to contact creditors on the system who have not already provided their bank details, before amounts are paid out, so that the payment can be converted to a bank transfer, letters will be sent to affected creditors with details of how they can securely provide their details and contact the offices.

Working with Other Agencies

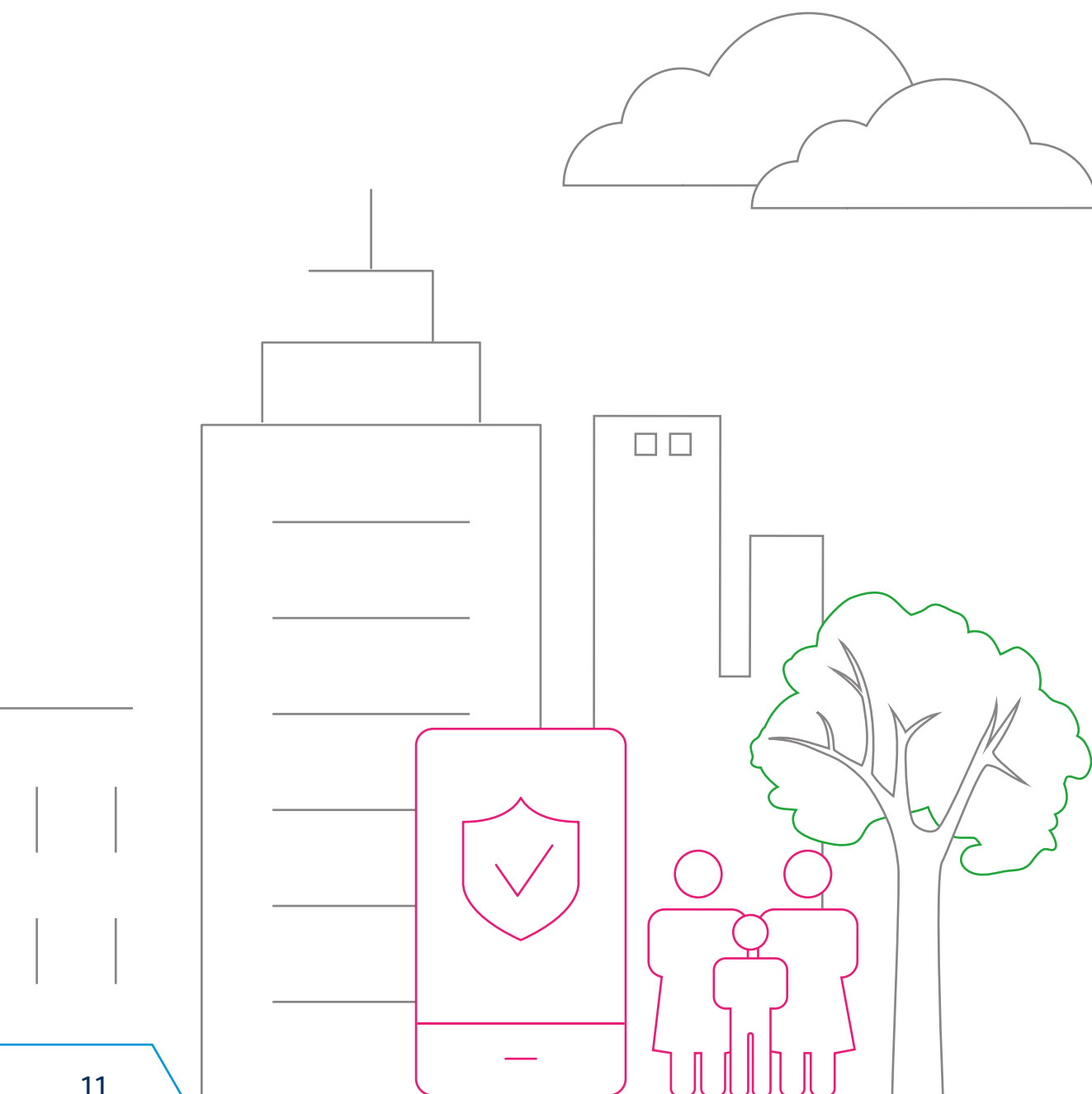
HMCTS continues to work with our partner agencies to develop ways we can improve the quality of data being shared and ensuring that this data is maintained. Work has already commenced with colleagues in the Crown Prosecution Service to improve the timeliness of data transfers reflecting impositions, collections and payments made, which will result in a more efficient process for both departments.

HMCTS also wishes to work with all prosecuting agencies in relation to data capture and maintenance as this will assist HMCTS in ensuring that data such as compensatee details is kept refreshed ensuring that receipts once received can be allocated and paid out to compensatees as expeditiously as possible.

Susan Acland-Hood
Chief Executive and Accounting Officer

11 July 2019

Section 3: Our controls and Governance



Accounting Officer's responsibilities

Accounting Officer's responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed HMCTS to prepare a Trust Statement for each financial year in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the collection of fines, penalties, costs awarded by the courts, compensation ordered by the courts, confiscation orders and the associated revenue, expenditure and cash flows for the financial year.

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

- observe the Accounts Direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- have taken all steps that ought to have been taken to make herself aware of any relevant audit information and to establish that the entity's auditors are aware of that information, and that they are not aware of any relevant audit information of which the entity's auditors are unaware of
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the statement
- prepare the statement on a going concern basis, and
- confirm that the Trust Statement as a whole is fair, balanced and understandable and take personal responsibility for the Trust Statement and the judgements required for determining that it is fair, balanced and understandable.

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

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding HMCTS's assets, are set out in Managing Public Money published by the HM Treasury.

Auditors

The Trust Statement is audited by the Comptroller and Auditor General under Section 7(4) of the Government Resources and Accounting Act 2000. The C&AG's fee for the audit of the 2018-19 Trust Statement was £100,000 (2017-18: £100,000). This is charged on a notional basis and recognised in the HM Courts & Tribunals Service Annual Report and Accounts 2018-19.

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

Governance Statement

Introduction

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

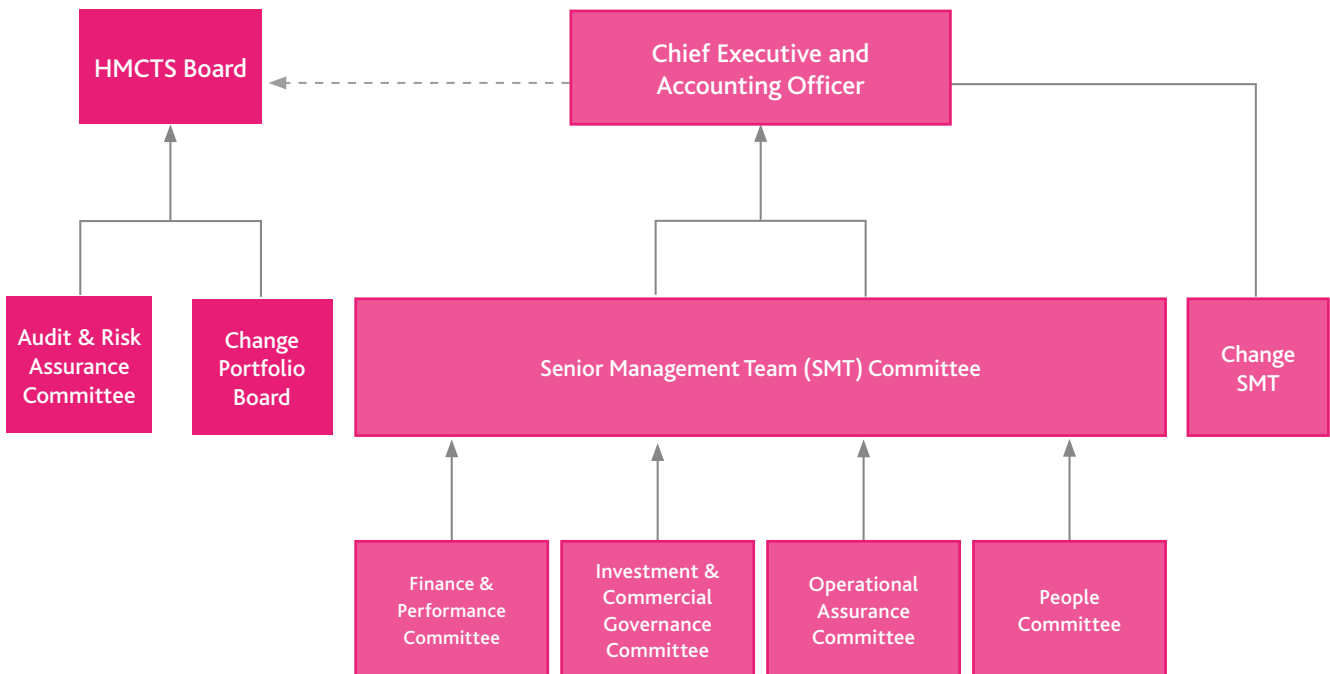
As Chief Executive I am responsible for the day-to-day operations and administration of the agency and leadership of its employees. I work under the general direction of the HMCTS Board. As Chief Executive and Accounting Officer I am accountable to the MoJ Permanent Secretary and Principal Accounting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

As Accounting Officer, and working together with my directors, I have responsibility for maintaining effective governance and a sound system of internal control that supports the achievement of HMCTS policies, aims and objectives, while safeguarding the public funds and assets for which I am personally accountable. Overall, I am satisfied that HMCTS has had effective governance, risk management and internal controls in place during 2018-19. I take personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

The Governance Statement covering the operation of HMCTS including staffing, risk assessment and management, internal audit and National Audit Office reports are reported in the HM Courts and Tribunals Service Annual Reports and Accounts 2018-19 (HC2336). This report covers areas that are specific to the Trust Statement

Governance framework and management structure 2018-19

Governance within HMCTS is delivered through a robust board and executive team as set out in the Delegation of Authority Policy. The governance structure for 2018-19 is shown in the chart below, further detail can be found in the HMCTS Annual report and Accounts (HC2336).



HM Treasury Corporate governance in central government departments – code of good practice

This code applies to MoJ directly and HMCTS has adopted key principles as best practice. We remain compliant with material requirements with the exception of the Nominations Committee as reported in previous years.

Governance arrangements for the organisation are overseen by the Audit and Risk Assurance Committee and the HMCTS Board as well as by the executive team on a day-to-day basis.

Principal systems and controls

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

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

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

There have been no significant control breaches during the year.

Inter-agency accountability

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

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

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



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

Risk Assessment 2018-19

To produce the risk register for 2018-19 the SMT held a risk workshop at the beginning of the year to identify the risks to the delivery of our priorities and the controls required to manage those risks. These risks were compiled into a new Risk Register, which was subsequently approved by the HMCTS Board. The SMT regularly reviewed the risk register and undertook a 'deep dive' on specific risks, which enabled a more in-depth assessment of individual risks. Additionally, the register is shared quarterly with MoJ to highlight any risks which could potentially have an impact at MoJ level.

Risk themes

A summary of a number of our higher risks, the controls and the changes though the year, is set out below:

Risk theme /description	Key controls and activities to manage risks	Risk movement
<p>Performance</p> <p>Two risks</p> <p>HMCTS does not deliver satisfactory performance across all jurisdictions</p> <p>HMCTS does not manage high profile service delivery failure in Operations.</p>	<p>Both performance and operational service failures were consistently high risks all through the reporting year. We continued to monitor performance closely and developed new dashboards to help us to do this. Our new Operational Assurance Committee, with the remit to consider the quality of service and implement remedial action, has considered key areas to mitigate the performance risks we face. We also established a 'Service Standards and Assurance Team' who investigate and rectify high profile operational issues.</p> <p>Performance and operational risks continue to be on the HMCTS risk register as we move to the 2019-20 reporting year.</p>	<p> The performance risk increased due to the potential impact increasing but the likelihood of the risk occurring decreased. Overall the risk ended as 'high'</p> <p>The operational failure risk remained 'high' throughout the year.</p>
<p>GDPR</p> <p>HMCTS does not effectively manage/adhere to its plans to achieve compliance with the General Data Protection Regulation (Data Protection Act 2018)</p>	<p>This risk began the year with a focus on the implementation and delivery of the GDPR regulations but was amended in July to focus on ongoing compliance with the new regulations.</p> <p>We have a dedicated GDPR team in place to provide cross Agency direction, working closely with the MoJ. The team rolled out awareness training to the organisation during March 2018 and led our engagement with the Information Commissioner's Office.</p> <p>This risk still features as a risk for management but at a Directorate level for 2019-20.</p>	<p> This risk reduced from a 'high' to 'medium' in November 2018.</p>

Managing the risk of fraud, bribery and corruption

MoJ has zero tolerance on fraud, bribery and corruption, whether involving its own employees or other external individuals or bodies. We have clear policies which set out responsibilities for the prevention, detection and reporting of fraud, bribery and corruption, which applies to all staff within MoJ. HMCTS has a dedicated counter fraud and investigations function who proactively and reactively work with the business to manage the risk of fraud, bribery and corruption.

Our approach to information security

HMCTS deals with sensitive personal information on behalf of people involved in hearings and we take our responsibility very seriously to ensure this information is appropriately protected. Our policy is to self-refer all significant data incidents to the Information Commissioner's Office (ICO) and we continue to work closely with the ICO and other agencies to further improve our systems and learn lessons. The HMCTS GDPR Team continue to work with Operational, Change and Digital colleagues to achieve full regulatory compliance.

Our approach to 'whistleblowing'

MoJ's whistleblowing policy encourages employees to raise concerns of wrongdoing, advises on the protection afforded to whistle-blowers and provides reassurance that concerns will be investigated responsibly and professionally.

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

Governance and risk assurance oversight arrangements

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

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

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

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

- up-to-date and comprehensive reports on performance and finance at all board meetings by the executive
- financial and administrative procedures which includes delegations of financial authority and segregation of duties on key financial processes
- assurances from MoJ for the provision of shared services
- Audit and Risk Assurance Committee (ARAC) overseeing the adequacy and effectiveness of the risk management processes and the system of internal control for the organisation (the committee regularly reviews governance and assurance reports, the corporate risk register, undertakes deep dives on our key risks and oversees the production of our annual report and accounts, as does the executive and HMCTS Board)
- regular reviews of the risk profile and effectiveness of the systems of internal control through the receipt of minutes from ARAC, through review of performance reports and through direct feedback from the chair of the committee
- internal audit reports (see below)
- value for money and other reports produced by the National Audit Office

Internal audit and annual audit opinion

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

The Group Head of Internal Audit provided an annual overall opinion of MODERATE, which means some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.

National Audit Office (NAO) reports

The NAO published its report into our progress in transforming courts and tribunals in April 2018. This was followed by a Public Accounts Committee hearing and report in June 2019, with the Committee saying that our reform programme was hugely ambitious and on a scale which has never been attempted anywhere before. We accepted and responded to all of the Committee's recommendations and more can be read here: <https://www.gov.uk/government/news/response-to-justice-select-committee-court-and-tribunal-reforms-inquiry>. The NAO is now reviewing progress of our reform programme and intends publishing its report in Autumn 2019.

Conclusion

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

I am satisfied that the significant control issues identified within this statement, relating to substantial ICT outages and over recovery of fees have been subject to rigorous review and continues to be managed through appropriate, effective and proportionate mitigating activity.

Susan Acland-Hood
Chief Executive and Accounting Officer
11 July 2019

Section 4: External scrutiny



THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

Opinion on financial statements

I certify that I have audited the financial statements of Her Majesty's Courts and Tribunals Service (HMCTS) for the year ended 31 March 2019 under the Government Resources and Accounts Act 2000. The financial statements comprise the Statement of Revenue and Expenditure, the Statement of Financial Position, the Statement of Cash Flows and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- The HMCTS Trust Statement gives a true and fair view of the state of affairs as at 31 March 2019 and of the net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

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

Basis of opinions

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

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 HMCTS'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 audit of the financial statements

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the HMCTS's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the sections 'Introduction to the Trust Statement,' 'Business overview' and 'Our controls and governance', but does not include 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 information given in the sections entitled 'Introduction to the Trust Statement,' 'Business overview' and 'Our controls and governance' for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

16 July 2019

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

Section 5: Financial statements



Statement of Revenue and Expenditure for the period ended 31 March 2019

	Notes	2018-19 £000	2017-18 £000
Impositions revenue			
Fines and penalties			
Court fines		329,679	355,773
Miscellaneous receipts		4,990	4,758
Criminal court charge (remissions) / impositions		(1,113)	(1,477)
Fixed penalty notices		107,088	99,155
Crown prosecutors' costs		31,274	34,978
Prosecutors' costs		93,255	92,448
Compensation		29,512	35,579
Confiscation orders		270,862	284,602
Victim surcharge		45,521	46,603
Total impositions revenue		911,068	952,419
Less expenditure			
Credit losses	2		
Debts Written off/(back)		(10,715)	(61,113)
Increase/(Decrease) in Impairment Charge		228,847	222,627
Total expenditure		218,132	161,514
Less disbursements			
Revenue retained by the Ministry of Justice	3	361,527	392,485
Prosecutors' costs for the Crown Prosecution Service		27,527	33,953
Prosecutors' costs		74,765	82,932
Compensation for other parties		22,041	29,540
Confiscation orders for Home Office		175,736	161,877
Victim surcharge for the Ministry of Justice		26,768	46,658
Total disbursements		688,364	747,445
Total expenditure and disbursements		906,496	908,959
Net revenue for the Consolidated Fund	6	4,572	43,460

The notes on pages 25 to 35 form part of this statement.

Statement of Financial Position as at 31 March 2019

	Notes	2018-19 £000	2017-18 £000
Current assets			
Receivables	4	648,227	644,318
Cash at bank – fines & other impositions		102,956	118,805
Cash at bank – fixed penalties		26,925	20,608
Total assets		778,108	783,731
Current liabilities			
Payables	5	439,264	449,459
Total liabilities		439,264	449,459
Total net assets		338,844	334,272
Represented by:			
Balance on Consolidated Fund	6	338,844	334,272

Susan Acland-Hood

Chief Executive and Accounting Officer

11 July 2019

The notes on pages 25 to 35 form part of this statement.

Statement of Cash Flows for the period ended 31 March 2019

	Notes	2018-19 £000	2017-18 £000
Net cash inflow / (outflow) from operating activities	7	(9,532)	33,671
Cash paid to the Consolidated Fund	6	-	-
Increase / (decrease) in cash in the period		(9,532)	33,671

Analysis of changes in net funds

	2018-19 £000	2017-18 £000
Net funds at beginning of period – 1 April	139,413	105,742
Net funds at end of period – 31 March	129,881	139,413
Increase / (decrease) in cash in the period	(9,532)	33,671

The following balances as at 31 March were held at:

	2018-19 £000	2017-18 £000
Government Banking Service	129,334	137,145
Commercial banks	547	2,268
Total cash balances	129,881	139,413

The notes on pages 25 to 35 form part of this statement.

Notes to the Trust Statement

1. Statement of Accounting Policies

The Trust Statement is prepared in accordance with:

- the 2018-19 Financial Reporting Manual (FRoM) issued by HM Treasury, in particular Chapter 8.2 which deals with Consolidated Fund revenue and Trust Statements. The accounting policies contained in the FRoM apply International Financial Reporting Standards (IFRS) as interpreted for the public sector.
- the 2018-19 accounts direction issued by HM Treasury on 04 March 2019 under section 7(2) of the Government Resources and Accounts Act 2000.

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

1.1. Basis of preparation

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

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

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

1.2. Changes in accounting policy and disclosures

Changes in accounting policies

There have been no changes in accounting policies for the period ended 31 March 2019

New standards, amendments and interpretations issued and effective for the financial year beginning 1 April 2018.

IFRS 15 Revenue from Contracts with customers and IFRS 9 Financial instruments.

IFRS 15 Revenue from Contracts with customers – this specifies, based on a single five step model, how and when to recognise revenue from contracts with customers. IFRS 15 is not applicable to the HMCTS Trust Statement as revenue from Fines and Penalties is considered a non-exchange transaction and thus out of scope of IFRS 15. As a result, HMCTS has continued to recognise revenue from fines and penalties in accordance with the Government Financial Reporting Manual (FRoM) chapter 8.2.

IFRS 9 Financial Instruments – IFRS 9 replaces the provisions of IAS39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets, it applies a single classification and measurement approach to all types of financial assets. In relation to impairment IFRS 9 sets out a three-stage forward looking model, known as the 'general approach'. Under the general approach, entities must at each stage of the model recognise a loss allowance for Expected Credit Losses (ECL) against any of the financial instruments subject to impairment accounting. ECLs are defined as the weighted average of credit losses, with the respective risks of a default occurring as the weights.

The adoption of IFRS 9 in the HMCTS Trust Statements from 01 April 2018 did not result in changes to the accounting policies used in the preparation of the Trust Statement. The HMCTS Trust statement current impairment models are based on calculating the expected cash flows from an imposition and then calculating the resulting expected lifetime credit loss, the model thus complies with the "general approach" and is consistent with IFRS 9 and thus no further impairment is required.

1.3. Revenue recognition

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

1.4. Expenditure

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

1.5. Disbursements

Disbursements are shown net of impairment and write-offs in accordance with the requirements of the FReM and IFRS 9. An accrual for disbursements is made based on the value of impositions payable to parties, including compensatees, other than the Consolidated Fund.

1.5.1. *Moj specific disbursements*

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

Revenue retained towards the cost of collection and administration

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

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

Revenue retained for Victims' Services

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

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

Revenue retained under Spending Round settlements

As part of the Spending Round 2015 settlement for the financial year ended 2018-19 HM Treasury has permitted the Moj to retain collections from fines, criminal court charge and fixed penalty impositions. The amount permitted to be retained by Moj in 2018-19 and 2017-18 is within an overall departmental income cap.

1.6. Net revenue for the Consolidated Fund

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

1.7. Receivables

Receivables are shown net of impairments in accordance with the requirements of the FReM and IFRS 9. Each class of debt has been assessed separately using performance reports to provide data concerning recoverability and the length of time it takes for debt to be repaid.

The fair value of receivables is determined by making an impairment to reduce the carrying value of receivables to the net present value of the estimated future flow of repayments discounted at HM Treasury's interest rate, currently 3.7% (2017-18: 3.7%).

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

1.8. Payables

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

1.9. Critical accounting judgements and estimates

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

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

Impairment of debt and credit losses

Receivables are shown net of impairments in accordance with the requirements of the FReM and IFRS 9. The fair value of receivables is determined by making an impairment to reduce the carrying value of receivables to the net present value of the estimated future flow of repayments discounted at the interest rate set by HM Treasury. The fair value of receivables is dependent on ongoing collection rates as well as the discount rate used in the valuation. The current year's impairment has been calculated based on a review of specific high value receivables combined with a collective assessment for all other debt. The collective impairment assessment is based on an analysis of past collection history projected forward to provide a payment stream which is then discounted back at the Treasury rate of 3.7% (2017-18: 3.7%) to calculate the net present value.

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

2. Credit losses

	Notes	2018-19 £000	2017-18 £000
Debts (written back) / off	2.1	(10,715)	(61,113)
Increase / (decrease) for year in impairment of receivables	4	228,847	222,627
Total		218,132	161,514

2.1. Debts (written back) / off

	2018-19 £000	2017-18 £000
Court fines	(8,322)	(44,441)
Criminal court charges	241	259
Crown prosecutors' costs	(599)	(4,549)
Prosecutors' costs	(2,185)	(8,907)
Compensation	530	(1,238)
Victim surcharge	(380)	(2,237)
Total	(10,715)	(61,113)

Debts written off are the amounts reportable to Parliament under rules on disclosure of losses and write-offs in Managing Public Money Annex A.4.10.24. under the category of 'Claims waived or abandoned'. There were no individual amounts over £300,000 included in debts written off in either 2018-19 or 2017-18.

There are no other losses or special payments reportable.

3. Revenue retained by the Ministry of Justice

	2018-19 £000	2017-18 £000
Revenue retained by MoJ towards the cost of collection and administration:		
Criminal court charges	3,089	5,001
	3,089	5,001
Fixed penalty revenue retained by MoJ for Victims' Services:		
Retained from fixed penalties for motor offences	30,000	30,000
Retained from fixed penalties for PNDs	108	125
	30,108	30,125
Revenue retained by MoJ under Spending Round settlements:		
Retained from fine collections	254,552	286,116
Retained from fixed penalty collections	73,778	71,243
	328,330	357,359
Total	361,527	392,485

4. Receivables

2018-19	Due to Consolidated Fund and third parties							Due to Home Office	Total
	Compensation	Victim surcharge	Prosecutors' costs	Crown prosecutors' costs	Fines	Criminal court charges	Fixed penalty notices	Confiscation orders	
	£000	£000	£000	£000	£000	£000	£000	£000	
Impositions outstanding									
At 1 April 2018	86,329	64,475	140,907	68,177	623,609	32,583	23,644	1,961,278	3,001,002
New impositions	29,512	45,521	93,255	31,274	329,679	(1,113)	107,088	179,574	814,790
Confiscation order interest								91,288	91,288
Collections	(26,271)	(33,529)	(71,267)	(29,597)	(249,560)	(3,089)	(103,887)	(166,837)	(684,037)
Written back / (written-off)	(530)	380	2,185	599	8,322	(241)	-	-	10,715
At 31 March 2019	89,040	76,847	165,080	70,453	712,050	28,140	26,845	2,065,303	3,233,758
Impairment									
At 1 April 2018	44,078	35,731	81,551	40,772	320,742	24,823	-	1,808,987	2,356,684
Increase/ (decrease) for the year	6,941	19,133	20,675	4,346	84,720	(2,094)	-	95,126	228,847
At 31 March 2019	51,019	54,864	102,226	45,118	405,462	22,729	-	1,904,113	2,585,531
Receivables Net Book Value at 31 March 2019	38,021	21,983	62,854	25,335	306,588	5,411	26,845	161,190	648,227
Receivables Net Book Value at 31 March 2018	42,251	28,744	59,356	27,405	302,867	7,760	23,644	152,291	644,318

4.1. Confiscation order debt – value banding by lead agency

	2018-19				2017-18			
	HMCTS £000	SFO £000	CPS £000	Total £000	HMCTS £000	SFO £000	CPS £000	Total £000
Gross debt								
Up to £250,000	229,063	118	49,485	278,666	213,210	36	46,804	260,050
£250,001 – £500,000	125,390	1,590	38,868	165,848	119,194	1,229	38,808	159,231
£500,001 – £1,000,000	176,097	2,404	50,727	229,228	167,075	2,504	57,570	227,149
Over £1,000,000	760,225	150,107	481,229	1,391,561	699,484	142,681	472,683	1,314,848
Total gross debt	1,290,775	154,219	620,309	2,065,303	1,198,963	146,450	615,865	1,961,278
Impairment								
Up to £250,000	207,086	78	35,647	242,811	185,383	29	30,363	215,775
£250,001 – £500,000	118,952	1,361	30,055	150,368	111,072	1,131	29,584	141,787
£500,001 – £1,000,000	170,577	2,368	42,629	215,574	160,204	2,354	46,922	209,480
Over £1,000,000	755,717	137,297	402,346	1,295,360	692,967	139,728	409,250	1,241,945
Total impairment	1,252,332	141,104	510,677	1,904,113	1,149,626	143,242	516,119	1,808,987
Net book value								
Up to £250,000	21,977	40	13,838	35,855	27,827	7	16,441	44,275
£250,001 – £500,000	6,438	229	8,813	15,480	8,122	98	9,224	17,444
£500,001 – £1,000,000	5,520	36	8,098	13,654	6,871	150	10,648	17,669
Over £1,000,000	4,508	12,810	78,883	96,201	6,517	2,953	63,433	72,903
Total net book value	38,443	13,115	109,632	161,190	49,337	3,208	99,746	152,291

The total gross debt is made up of 11,283 cases, of which: 10,589 (93.8%) are of value up to £250,000; 311 (2.8%) are between £250,001 – £500,000; 198 (1.8%) are between £500,001 – £1,000,000, and; 185 (1.6%) are over £1,000,000.

4.2. Confiscation order debt – aged debt profile by lead agency

	2018-19				2017-18			
	HMCTS	SFO	CPS	Total	HMCTS	SFO	CPS	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Gross debt								
0 – 1 year	41,898	407	48,834	91,139	56,976	-	73,165	130,141
1 – 2 years	39,195	-	64,827	104,022	25,542	6,719	45,348	77,609
2 – 5 years	153,593	7,604	264,062	425,259	159,588	1,423	261,017	422,028
Over 5 years	1,056,089	146,208	242,586	1,444,883	956,857	138,308	236,335	1,331,500
Total gross debt	1,290,775	154,219	620,309	2,065,303	1,198,963	146,450	615,865	1,961,278
Impairment								
0 – 1 year	21,536	169	15,700	37,405	27,938	-	23,896	51,834
1 – 2 years	32,983	-	37,311	70,294	21,456	4,472	35,173	61,101
2 – 5 years	147,591	5,405	236,417	389,413	150,110	1,024	238,325	389,459
Over 5 years	1,050,222	135,530	221,249	1,407,001	950,122	137,746	218,725	1,306,593
Total impairment	1,252,332	141,104	510,677	1,904,113	1,149,626	143,242	516,119	1,808,987
Net book value								
0 – 1 year	20,362	238	33,134	53,734	29,038	-	49,269	78,307
1 – 2 years	6,212	-	27,516	33,728	4,086	2,247	10,175	16,508
2 – 5 years	6,002	2,199	27,645	35,846	9,478	399	22,692	32,569
Over 5 years	5,867	10,678	21,337	37,882	6,735	562	17,610	24,907
Total net book value	38,443	13,115	109,632	161,190	49,337	3,208	99,746	152,291

The total debt is made up of 11,283 cases, of which: 1,694 (15%) are between 0 – 1 years old; 996 (8.8%) are between 1 – 2 years old; 2,402 (21.3%) are between 2 – 5 years old, and; 6,191 (54.9%) are over 5 years old.

5. Payables

	2018-19		Total £000
	On which cash received	On which cash receivable	
	£000	£000	
Confiscation orders (Home Office)	35,331	161,190	196,521
Prosecutors' costs (incl. CPS Costs)	752	88,189	88,941
Compensation	9,051	38,021	47,072
Victim surcharge	13,203	21,983	35,186
Fines and fixed penalty receipts payable to MoJ	67,984	-	67,984
Other	3,560	-	3,560
Total	129,881	309,383	439,264

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

6. Balance on the Consolidated Fund account

	2018-19 £000	2017-18 £000
Balance on the Consolidated Fund at 1 April	334,272	290,812
Net Revenue for the Consolidated Fund	4,572	43,460
Less: amount paid to the Consolidated Fund		
Balance on the Consolidated Fund at 31 March	338,844	334,272

The balance on the Consolidated Fund comprises:

	2018-19		Total
	On which cash received £000	On which cash receivable £000	£000
Balance on Consolidated Fund Account as at 1 April	-	334,272	334,272
Balance on Consolidated Fund Account as at 31 March	-	338,844	338,844

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

7. Notes to the Statement of Cash Flows

	Notes	2018-19 £000	2017-18 £000
Net cash flow from operating activities is derived as follows:			
Net revenue for the Consolidated Fund	6	4,572	43,460
Adjustment for non-cash items:			
Increase / (decrease) in impairment provision	2	228,847	222,627
(Increase) / decrease in gross receivables		(232,756)	(311,383)
Increase / (decrease) in payables		(10,195)	78,967
Net cash inflow / (outflow) from operating activities		(9,532)	33,671

8. Financial instruments

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

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

a) Carrying amount and fair values

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

The fair value of receivables is determined by making an impairment to reduce the carrying value of receivables to the net present value of the estimated future flow of repayments discounted at the Treasury rate of 3.7% (2017-18: 3.7%).

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

Assumption	Change in assumption	Increase / (decrease) in net receivables	
		2018-19 £m	2017-18 £m
Projected cash collections	+10%	53.0	52.2
Projected cash collections	+5%	26.5	26.1
Projected cash collections	-10%	(53.0)	(52.2)
Projected cash collections	-5%	(26.5)	(26.1)

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

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

b) Liquidity risk

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

c) Credit risk

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

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

	2018-19 £000	2017-18 £000
Cash at bank	129,881	139,413
Receivables	648,227	644,318
	778,108	783,731

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

The size of the risk inherent within the trade receivables balance (shown net of impairment above) is reflected in the receivables impairment which totals £2,586million (2017-18: £2,357million). HMCTS, through the Governance and Risk management structures outlined in the Governance Statement, continues to assess and implement programmes to increase collection of receivables.

d) Currency risk and interest rate risk

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

9. Related Party transactions

On 16 July 2018 Andrew Baigent, Chief Financial Officer of HMCTS, was appointed by the Cabinet Office as a director of Integrated Debt Services Limited (trading as Indesser). Indesser is a joint venture between the Government and TDx Group Limited offering a single route for government bodies to use the private sector to recover debt. HMCTS uses Indesser to provide information to assist with the recovery of debt. Note 23 of the HMCTS Annual Report and Accounts (HC 2336) details the level of expenditure incurred in 2018-19.

10. Events after the reporting period

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

There were no adjusting events in the period.



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