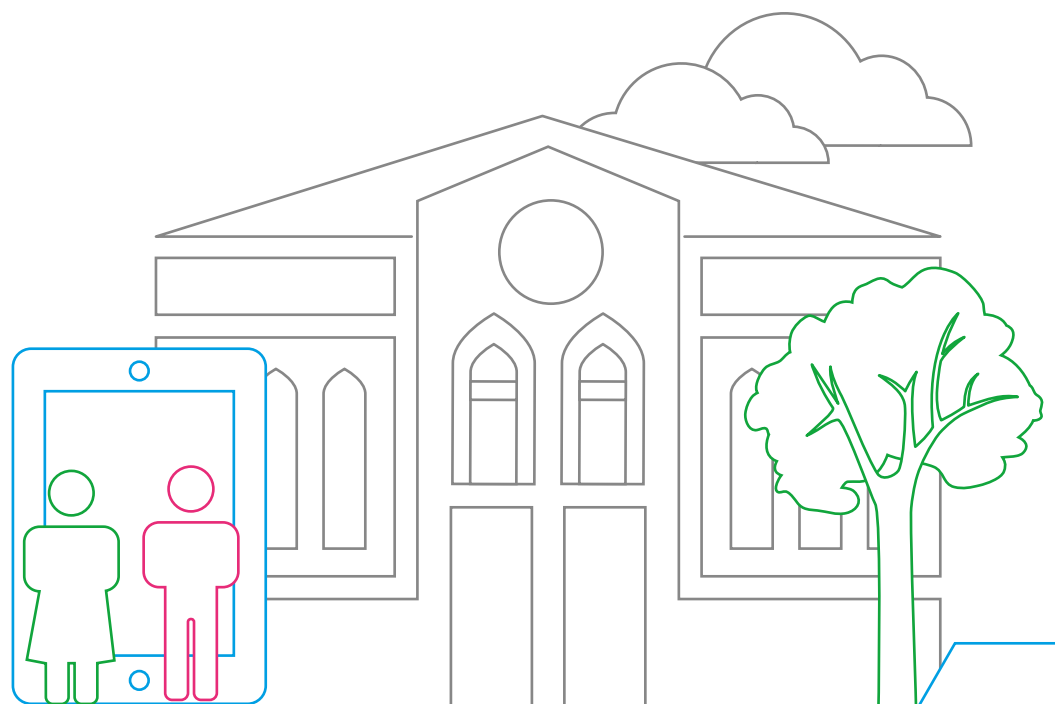




HM Courts &
Tribunals Service

HM Courts & Tribunals Service

Trust Statement 2019-20



HM Courts & Tribunals Service

Trust Statement 2019-20

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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Any enquiries regarding this publication should be sent to us at:

HM Courts & Tribunals Service, Communications Team, 6th Floor, 102 Petty France, London, SW1H 9AJ
or HMCTS.Communications@justice.gov.uk

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Contents

Section 1: Introductions	1
Accounting Officer's Foreword to the Trust Statement	2
Introduction to the Trust Statement	3

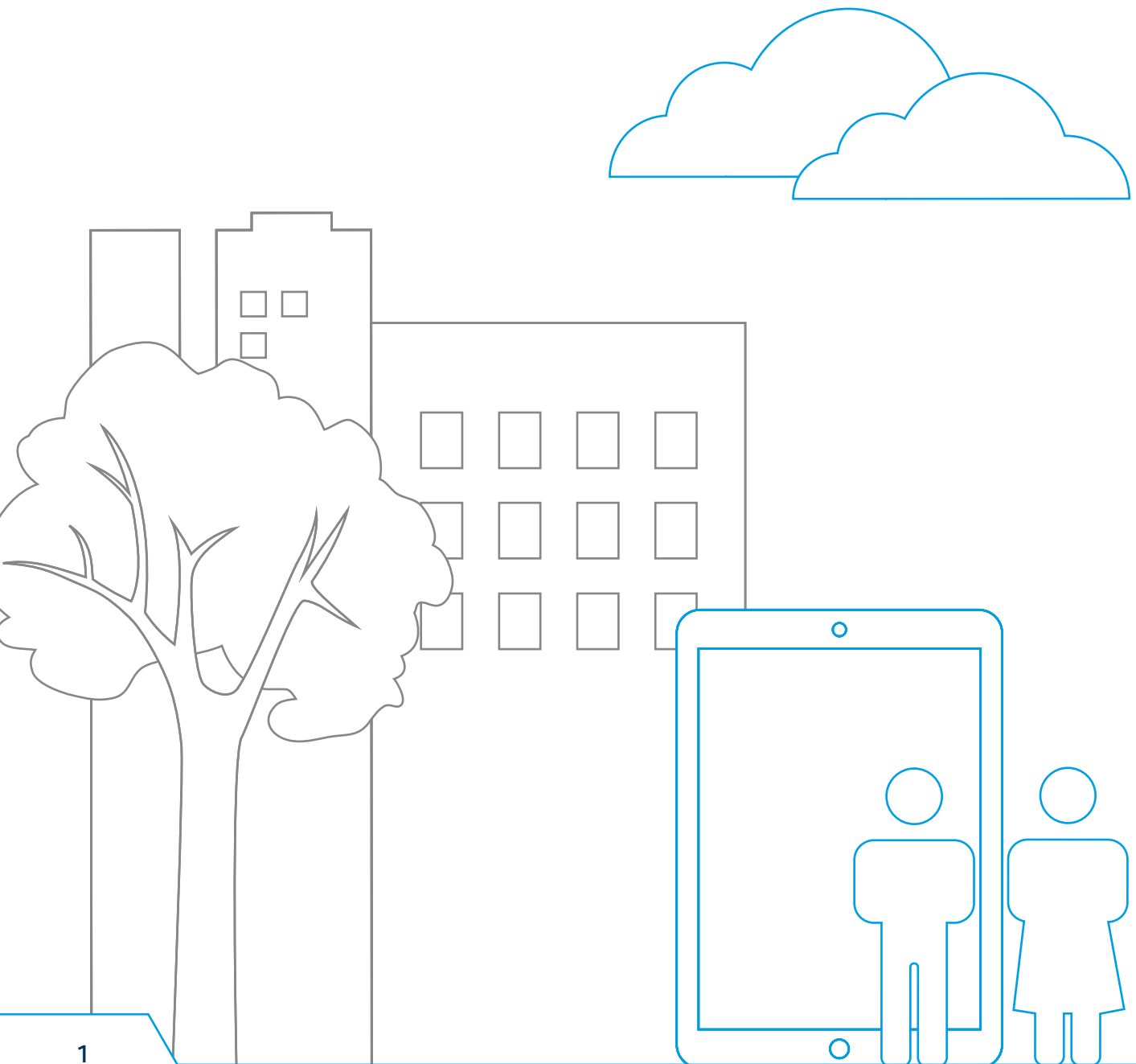
Section 2: Our performance	5
Business Overview	6

Section 3: Our controls and Governance	15
Accounting Officer's responsibilities	16
Governance Statement	17

Section 4: External scrutiny	21
The certificate and report of the Comptroller and Auditor General to the House of Commons	22

Section 5: Financial statements	25
Statement of Revenue and Expenditure for the period ended 31 March 2020	26
Statement of Financial Position as at 31 March 2020	27
Statement of Cash Flows for the period ended 31 March 2020	28
Notes to the Trust Statement	29

Section 1: Introductions



Accounting Officer's Foreword to the Trust Statement

I am pleased that, for a seventh year, the Comptroller and Auditor General has been able to provide an unqualified audit opinion on Her Majesty's Courts and Tribunals Service (HMCTS) Trust Statement. I am extremely grateful for 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.

2019-20 was operating as normal for the Trust Statement with HMCTS continuing to roll out our programme of courts and tribunals reform until the beginning of March when the full impact of the Covid-19 pandemic was faced. Since then HMCTS has implemented, at speed, a large number of initiatives to enable the Courts, an essential public service to continue to function. These have included the use of audio and video enabled courts to allow for remote hearings and for those cases that have to be heard in person, courts where social distancing can be maintained.

I'd like to pay tribute to the extraordinary effort of HMCTS staff, members of the Judiciary and court users for their resilience and flexibility to adapt to the new working conditions. All court users, be they Judiciary, HMCTS staff or professional users have, with very little notice, had to learn to hold a Court using new technical solutions and the manner in which this has been embraced has resulted in Courts continuing to be held and justice to be served.

The impact of Covid-19 will result in there being fewer financial impositions to enforce as a result of lower numbers of cases submitted and the reduced number of court sittings during the lock down period, but, as in previous years, 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.

Kevin Sadler

Acting 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.

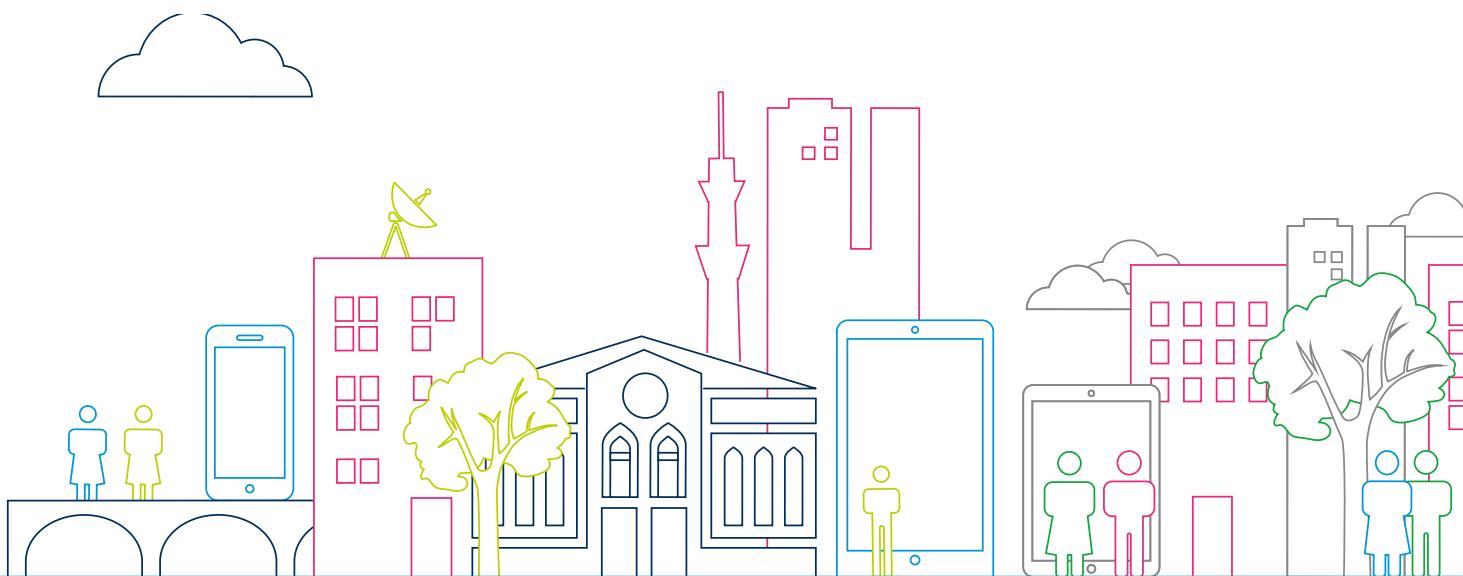
The Trust Statement accounts do not include the costs of HM Courts & Tribunals Service. These are reported separately in the HM Courts & Tribunals Service Annual Report and Accounts 2019-20 (HC514) which also sets out the general direction and priorities for the Agency, details of its management and the Chief Executive's report.

Scope

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

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

Confiscation Orders – Confiscation orders are imposed by the Crown Court. These require the defendant to pay back the proceeds of acquisitive crime. The orders are made under the Proceeds of Crime Act 2002 and can result in the seizure and sale of assets. 38.2% 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) for anti-social and nuisance behaviours. 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.

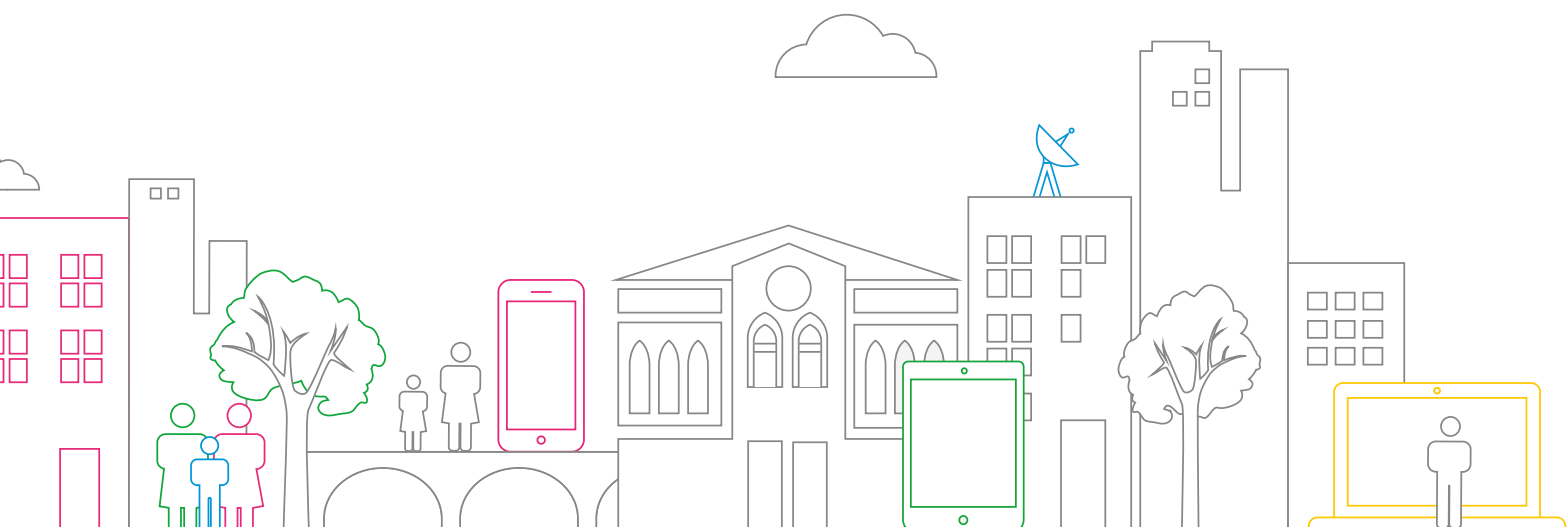
Victim surcharge – An additional surcharge is added to fines that are imposed and are enforced as described above. The receipts from the collection of the victim surcharge by HM Courts & Tribunals Service are passed to the justice reform directorate of the MoJ to fund victims' services.

Criminal Court Charge – The criminal court charge was an additional financial imposition designed to recover a proportion 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 2019-20 accounts relate to remissions and appeals against levies of the criminal court charge raised prior to 24 December 2015. All charges imposed up to that date are still payable. Receipts from the criminal court charge are due to the MoJ and are recorded in the MoJ departmental accounts.

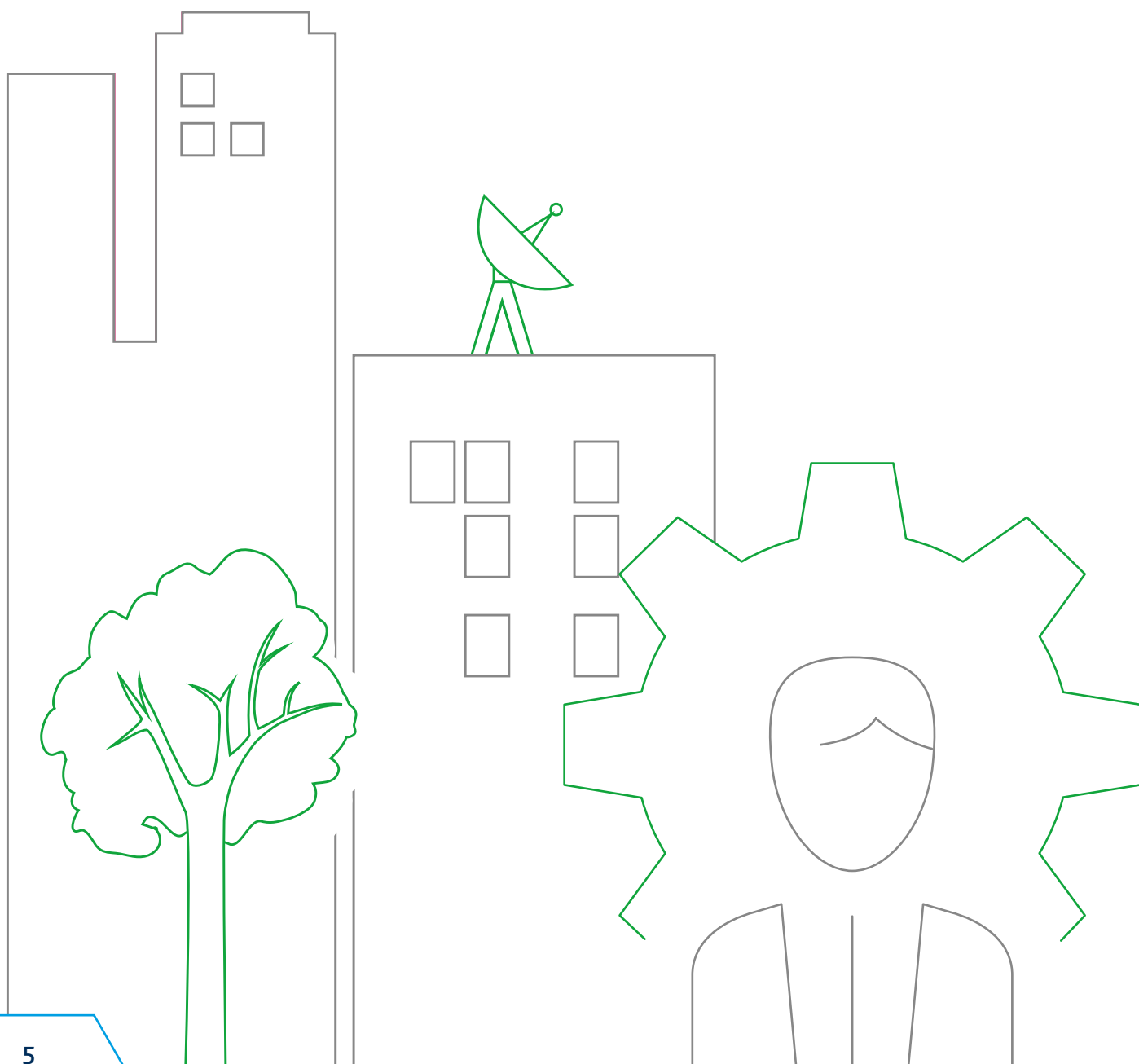
Expenditure and disbursements – Receipts from confiscation orders, prosecution costs and compensation orders are remitted to appropriate third parties, including government departments and the victims of crime. These remittances are reflected through the disbursements disclosed in the Statement of Revenue 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 2019-20 and 2018-19 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

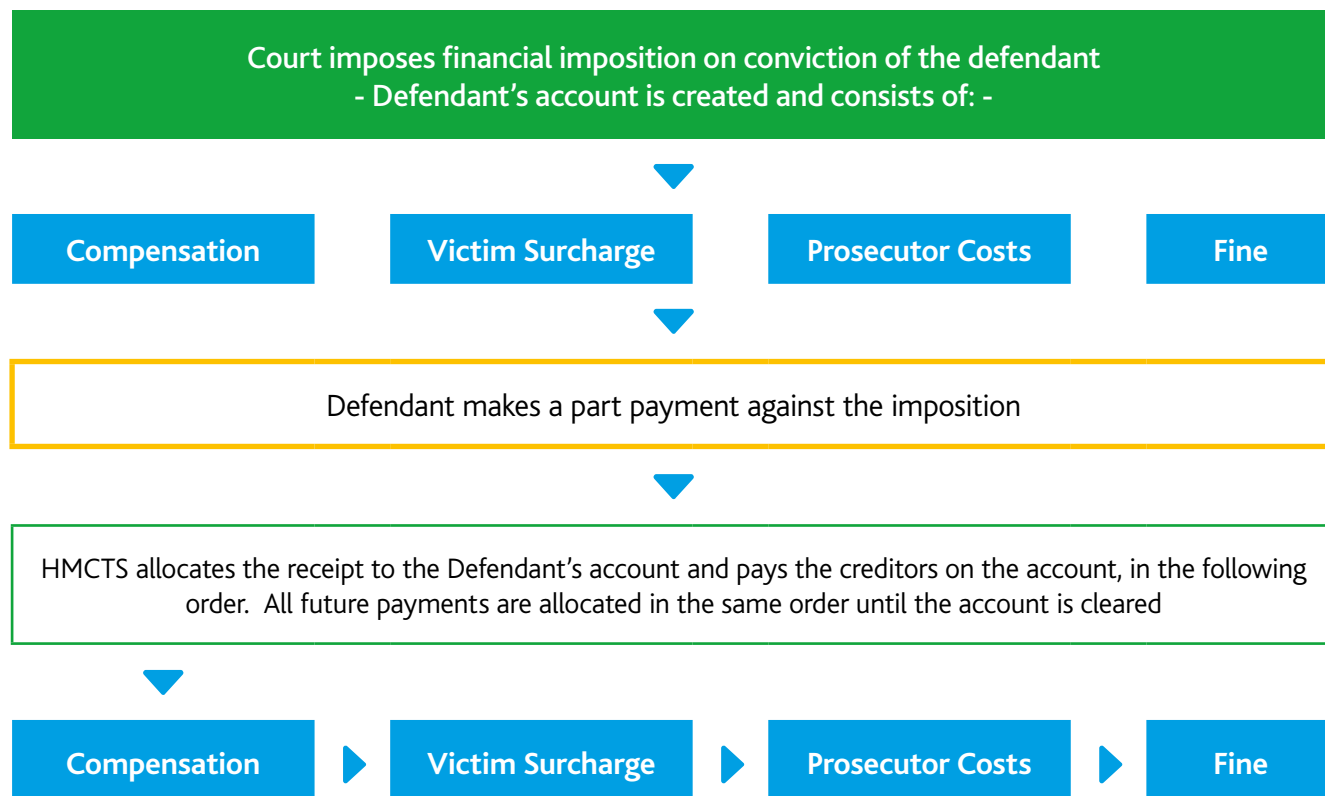
Impositions can also take the form of a penalty notice issued by the Police or other sums which are enforced by the magistrates' court as if there has been a conviction.

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 accounts are created on the accounting segment of the case management system known as Libra. 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 £3,234 million was outstanding at the start of the 2019-20 financial year.

As receipts, referred to as **collections**, are received from defendants, funds are disbursed 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.

Overview of an imposition



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 2019-20 the overall impact of these adjustments show that HMCTS wrote off £15 million.

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.

Debt balance brought forward from prior years	£3,234 million
+	
New Impositions made in year	£913 million
-	
Collections	£668 million
-	
Write Offs	£15 million
=	
Gross debt	£3,464 million
-	
Impairment charge	£2,827 million
=	
Closing debt balance	£637 million



100,000

The average number of new financial imposition accounts raised by HMCTS each month

£44 million

The average amount of receipts collected per month by HMCTS in 2019-20 (excluding confiscation orders)

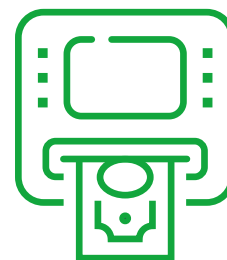


88,000

The average number of fixed penalty notice payments collected by HMCTS per month

72,000

The average number of payments made to third parties i.e. compensatées and prosecutors each month by BACS i.e. directly into their bank account



18,000

The average number of cheques issued by HMCTS and banked by third parties such as compensatées

Financial Analysis 2019-20

Covid-19

This Trust Statement reports on the 2019-20 financial year. Covid-19 began to impact the operations of the Courts from mid-March onwards and thus the impact on the 2019-20 financial statements was minimal and performance for 2019-20 as reported on in this statement was not materially impacted.

One of the key charges in the Trust Statement is the accounting assessment of the value of outstanding debt that will be recovered in future years (note 4 to the accounts). This estimate is based on a number of factors including the use of historic payment rates to predict future cash flows. HMCTS does not believe that Covid-19 will materially impact on the assessments of the recoverability of outstanding debt as reported in note 4. This is mainly due to the enforcement powers that HMCTS has to collect the debt which, for non-confiscation order impositions include the ability to apply attachment of earnings/ benefits to defendants who do not comply with the court's ruling. For confiscation orders the debt is often linked to specific assets which have been identified in the court case and it is the difficulty in tracing these assets that impacts the assessment on collectability. It is, however possible that Covid-19 may impact the time taken to recoup the debt, which may be extended where payment plans such as attachment of earnings are affected by ability to pay. Note 8 to the accounts includes an assessment of the impact a delay in recovery of the receipts may have.

During the lockdown period the number of courts sitting was significantly reduced with a number of sites being temporarily closed and thus fewer impositions were issued, which will impact the 2020-21 Trust Statement. In addition as a result of both the lockdown and travel restrictions HMCTS was unable to actively enforce outstanding impositions, the impact of which has been a short term reduction in collections in 2020-21. In Summer 2020 HMCTS began to re-open court sites and to recommence sittings, including a recovery plan to manage the backlog of cases that has accrued. As part of the recovery programme HMCTS will also be recommencing active enforcement of outstanding impositions.

Impositions revenue

Total imposition revenue increased from £911 million in 2018-19 to £918 million in 2019-20, an increase of £7 million. This was driven mainly by a small increase in fixed penalty notices and confiscation orders offset by a general decrease in fines issued in the year.

In 2019-20 there have continued to be remissions granted for Criminal Court Charges in-line with the legislative provisions, due to the cessation of the charge in December 2015. These remissions appear as a negative imposition in the Statement of Revenue and Expenditure.

Disbursements and expenditure

Total disbursements and expenditure have increased by £23 million from £906 million in 2018-19 to £929 million in 2019-20.

The increase is linked to the increase in impositions issued in the year and

- The write off of debts of £15 million (£11 million written back in 2018-19) this is predominantly as a result of the dissolution of companies.
- An increase in the impairment charge

The overall impact is that there is a £15.5 million reduction to £-10.9 million in the net revenue due to the Consolidated Fund which was £4.6 million in 2018-19.

Collections

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

- Continued collections from the Historic Debt Project resulting in an additional £6.7 million of receipts from old outstanding debt. Since its inception in 2016-17 the historic debt project has collected £43.8 million in outstanding impositions. Receipts will continue into future years due to accounts being paid via payment plans.

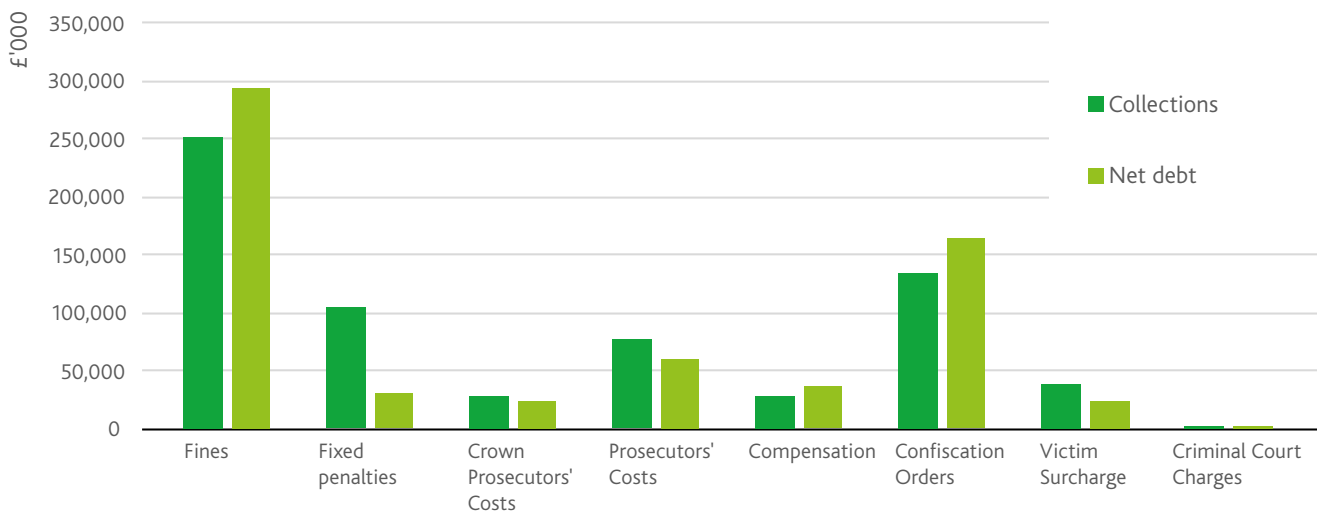
Impairment of debt

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 2020 is £637 million (2018-19: £648 million). This is compared to the value of cash collected in the year in the chart below.



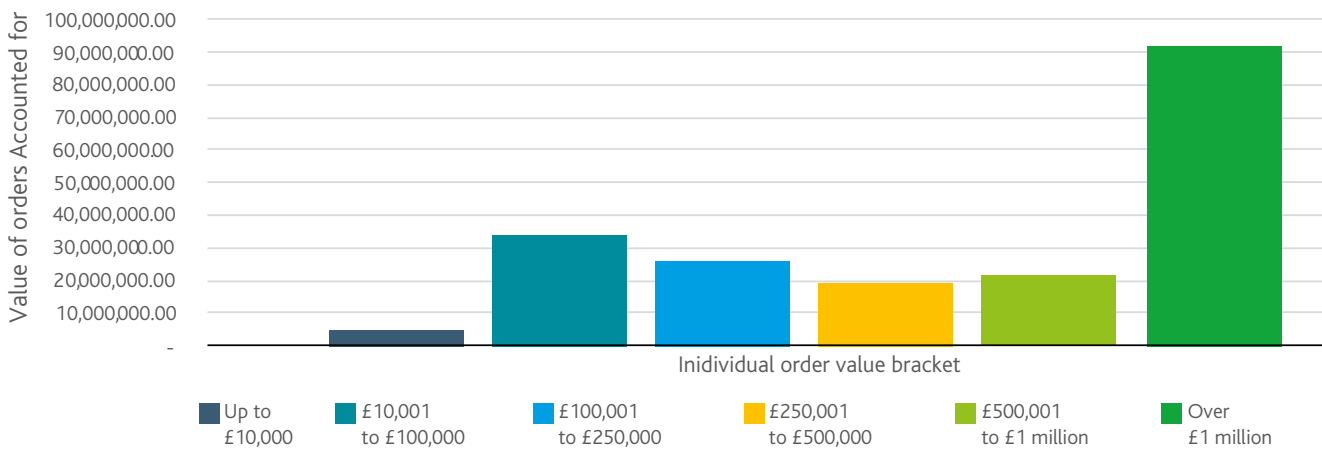
Confiscation Orders

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, as a result the value of orders raised annually can vary considerably, during 2019-20 the highest order raised was for £9,999,999 and the lowest was for less than £50.

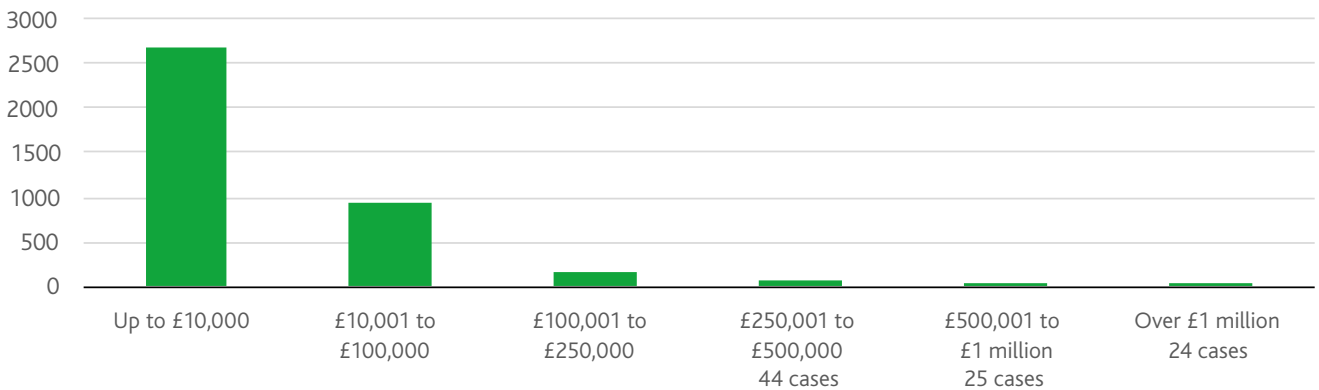
If a defendant does not pay the order by the due date then a prison sentence is imposed and the outstanding debt accrues interest at a rate of 8% per annum.

New Confiscation orders accounted for in 2019-20

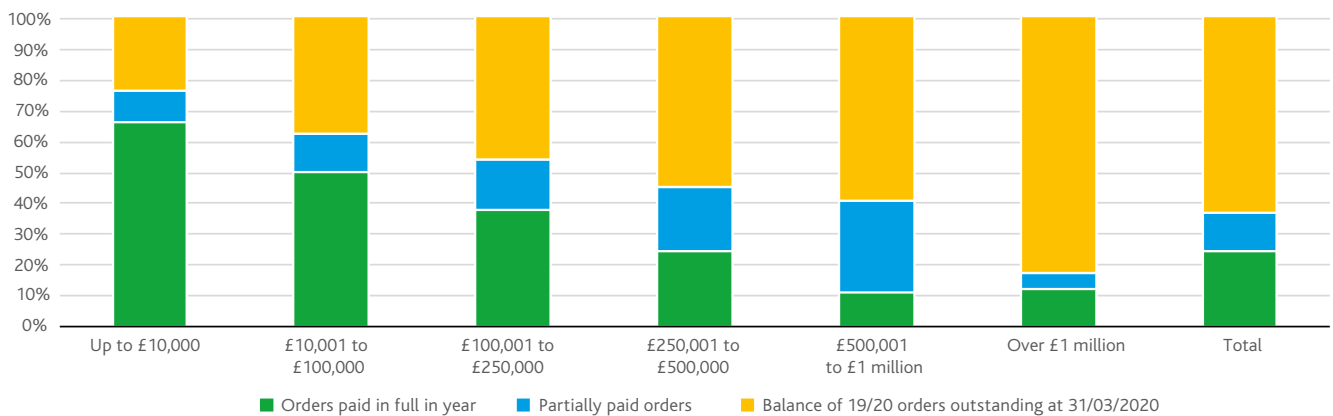
Orders accounted for in 2019-20



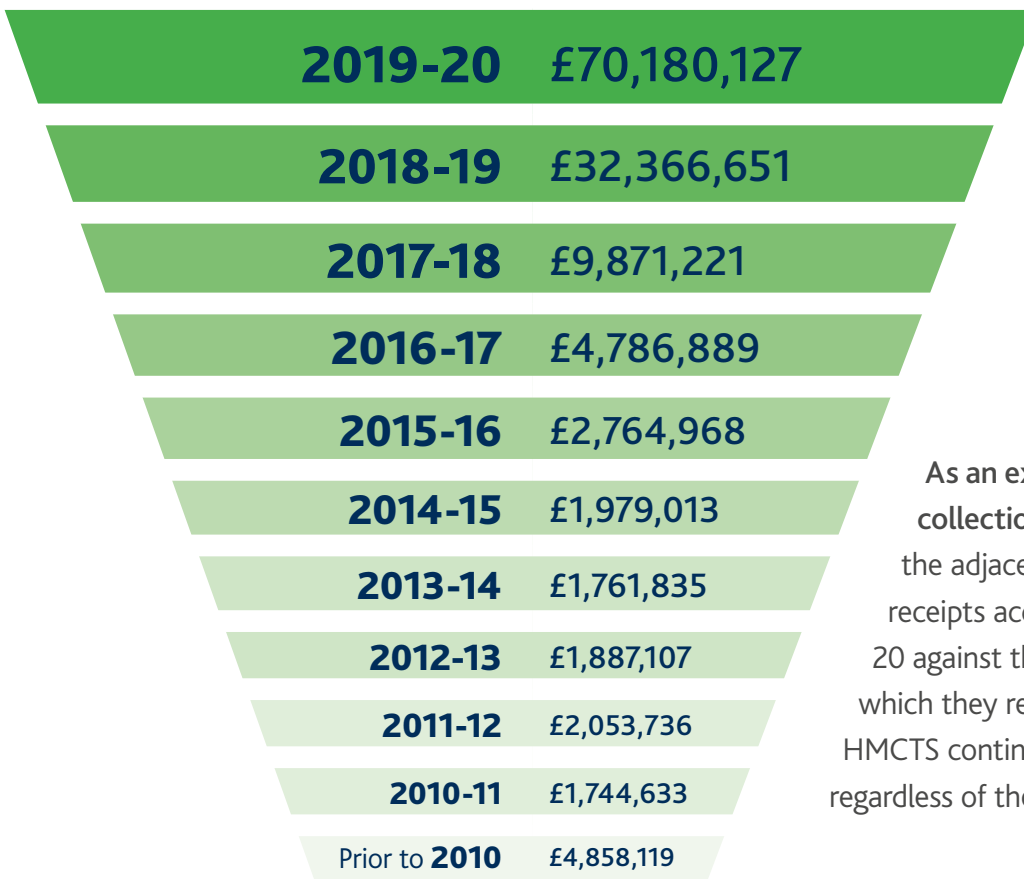
Number of cases accounted for in 2019-20



Status of confiscation orders accounted for in 2019-20



The above diagram illustrates that as the value of the order increases the amounts paid in full in the year of issue decrease. 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. However, by issuing the order at the full value the Court has deprived the defendants of the use of the assets and have thus taken the assets out of circulation. Once 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 collected over a considerably long period of time.



As an example of the collection periods of the debt, the adjacent diagram details receipts accounted for in 2019-20 against the imposition year to which they relate. As can be seen HMCTS continues to enforce the debt regardless of the age of the imposition.

The gross value of confiscation order debt as at 31 March 2020 is £2,225 million (2018-19: £2,065 million) and has been impaired for accounting purposes to a net present value of £165 million (2018-19: £161 million), 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 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:

	2019-20 £000	2018-19 £000
Interest (historically challenging to enforce)	846,946	748,882
Assets assessed as hidden with no other assets against which enforcement action can be taken.	517,759	493,830
Offenders deceased, deported or cannot be located	146,002	151,183
Orders subject to appeal and cannot be enforced	15,264	11,895
Assets overseas	9,550	9,646
Sub-total	1,535,521	1,415,436
Remaining confiscation order balance	689,431	649,867
Total outstanding debt	2,224,952	2,065,303

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

Covid-19

Due to the impact of Covid-19 on the operational activities of the Courts, with the exception of the work to reduce issued cheque volumes as described below all other future initiatives have been temporarily placed on hold.

Reducing cheque volumes

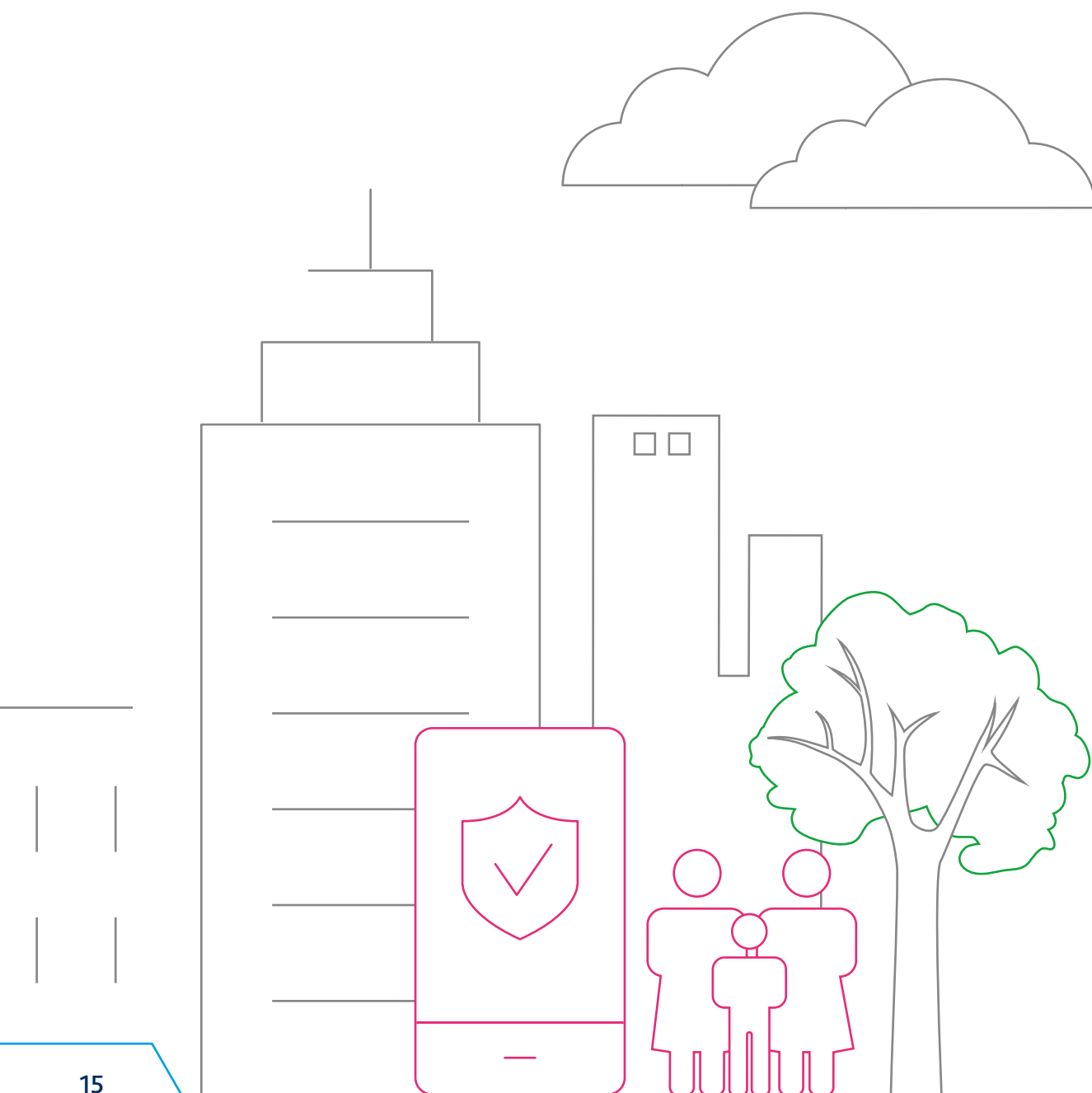
As reported in 2018-19 HMCTS, in line with other Government Departments, is working to reduce the volume of cheques issued each month and replacing them with direct bank transfers, these being a quicker and more secure method of payment. Cheques are principally issued to compensatees and as impositions 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 2019-20 the number of BACS payments issued has increased by 50%, this has been as a result of new compensatees being paid by BACS and also the commencement of the programme to convert existing compensatees on the Libra system from cheque to BACS, as per last year HMCTS will continue to contact affected creditors with details of how they can securely provide their details and contact the offices.

Kevin Sadler

Acting Chief Executive and Accounting Officer

02 October 2020

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 himself 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 2019-20 Trust Statement was £110,000 (2018-19: £100,000). This is charged on a notional basis and recognised in the HM Courts & Tribunals Service Annual Report and Accounts 2019-20.

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 executive agency of the MoJ. Our key role 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.

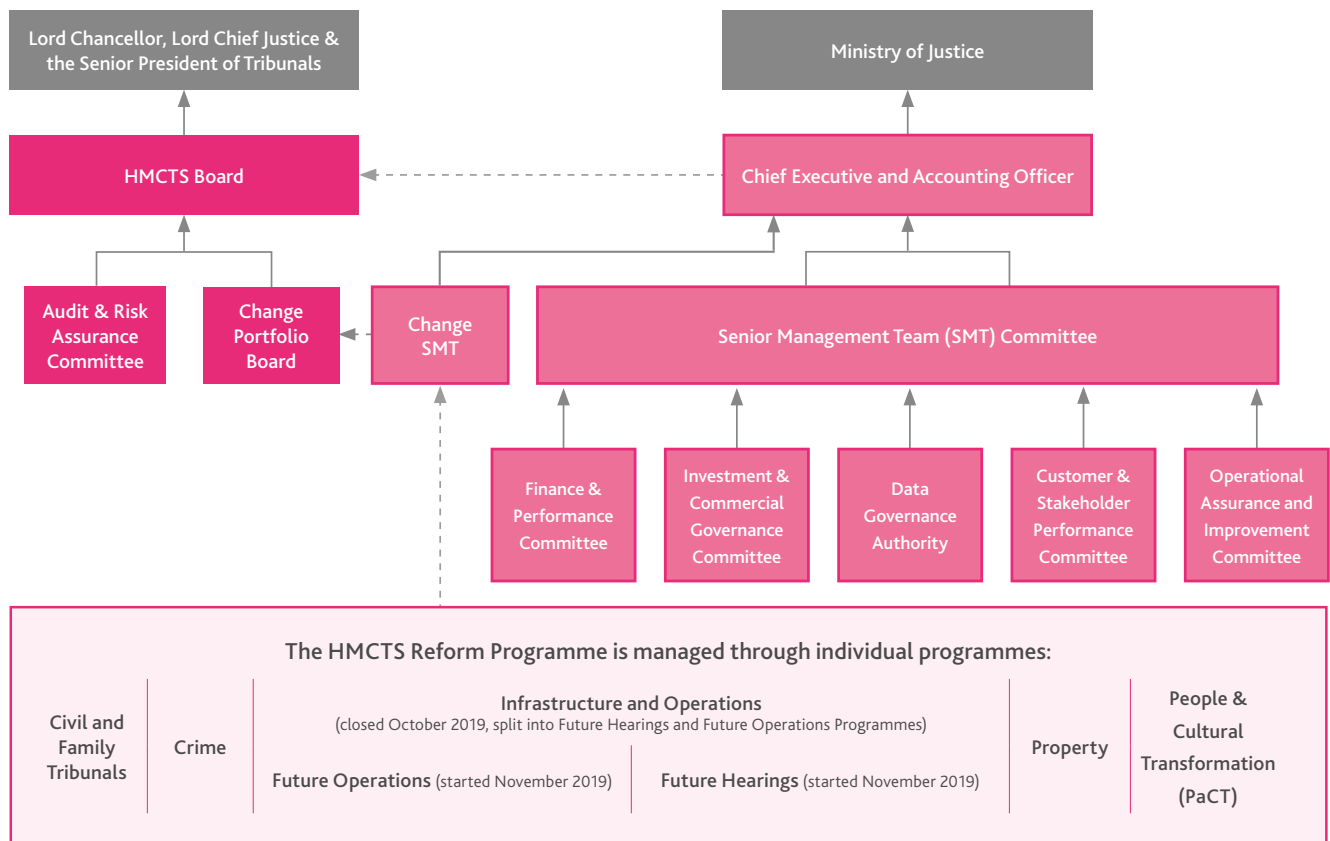
Prior to the accounts being signed our Chief Executive in post changed. Before her departure from the Agency, Susan Acland-Hood provided a comprehensive handover to me and, as an existing member of the HMCTS Board and Deputy Chief Executive, I was already aware of, and to an extent involved with, Accounting Officer and corporate governance responsibilities for the Agency. As Acting 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 Acting 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 through the information supplied to me by Susan Acland-Hood and through my role, at that time, as Deputy Chief Executive that HMCTS has had effective governance, risk management and internal controls in place during 2019-20. 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 2019-20 (HC514). This report covers areas that are specific to the Trust Statement.

Governance framework and management structure 2019-20

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 2019-20 is shown in the chart below, further detail can be found in the HMCTS Annual report and Accounts (HC514).



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 in the HMCTS Annual Report and Accounts.

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 system 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 2019-20

To produce the risk register for 2019-20 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.

COVID-19 Emergency Risk Profile (Contingent Risk Register)

A new Covid-19 emergency period risk register was developed - temporarily replacing the current corporate risk register - in March 2020, which identifies the most proximate risks facing HMCTS. The risks were reviewed and endorsed by the HMCTS Senior Management Team, the ARAC and the HMCTS Board. These risks will stay in place through 2020-21, or until they no longer present a risk to the organisation.

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)

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 a progress update to its report into our progress in transforming courts and tribunals in September 2019. The findings of the report can be read here: <https://www.nao.org.uk/wp-content/uploads/2019/09/Transforming-Courts-and-Tribunals-Summary.pdf>

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.

Kevin Sadler

Acting Chief Executive and Accounting Officer

02 October 2020

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 HM Courts and Tribunals Service (HMCTS) Trust Statement for the year ended 31 March 2020 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 2020 and of the net revenue for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on regularity

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

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- HMCTS's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- HMCTS have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about HMCTS's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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 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 financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude on the appropriateness of HMCTS'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 HMCTS's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my 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 report. However, future events or conditions may cause HMCTS to cease to continue as a going concern.

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 titled '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

06 October 2020

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 2020

	Notes	2019-20 £000	2018-19 £000
Impositions revenue			
Fines and penalties			
Court fines		316,219	329,679
Miscellaneous receipts		4,759	4,990
Criminal court charge (remissions) / impositions		(800)	(1,113)
Fixed penalty notices		109,246	107,088
Crown prosecutors' costs		28,775	31,274
Prosecutors' costs		93,224	93,255
Compensation		28,150	29,512
Confiscation orders		293,903	270,862
Victim surcharge		44,424	45,521
Total impositions revenue		917,900	911,068
Less expenditure			
Credit losses	2		
Debts Written off/(back)		14,903	(10,715)
Increase/(Decrease) in Impairment Charge		241,547	228,847
Total expenditure		256,450	218,132
Less disbursements			
Revenue retained by the Ministry of Justice	3	365,299	361,527
Prosecutors' costs for the Crown Prosecution Service		27,651	27,527
Prosecutors' costs		74,650	74,765
Compensation for other parties		26,057	22,041
Confiscation orders for Home Office		137,586	175,736
Victim surcharge for the Ministry of Justice		41,089	26,768
Total disbursements		672,332	688,364
Total expenditure and disbursements		928,782	906,496
Net revenue for the Consolidated Fund	6	(10,882)	4,572

The notes on pages 29 to 39 form part of this statement.

Statement of Financial Position as at 31 March 2020

	Notes	2019-20 £000	2018-19 £000
Current assets			
Receivables	4	636,980	648,227
Cash at bank – fines & other impositions		59,288	102,956
Cash at bank – fixed penalties		10,534	26,925
Total assets		706,802	778,108
Current liabilities			
Payables	5	378,840	439,264
Total liabilities		378,840	439,264
Total net assets		327,962	338,844
Represented by:			
Balance on Consolidated Fund	6	327,962	338,844

Kevin Sadler

Acting Chief Executive and Accounting Officer

02 October 2020

The notes on pages 29 to 39 form part of this statement.

Statement of Cash Flows for the period ended 31 March 2020

	Notes	2019-20 £000	2018-19 £000
Net cash inflow / (outflow) from operating activities	7	(60,059)	(9,532)
Cash paid to the Consolidated Fund	6	-	-
(Decrease) in cash in the period		(60,059)	(9,532)

Analysis of changes in net funds

	2019-20 £000	2018-19 £000
Net funds at beginning of period – 1 April	129,881	139,413
Net funds at end of period – 31 March	69,822	129,881
(Decrease) in cash in the period	(60,059)	(9,532)

The following balances as at 31 March were held at:

	2019-20 £000	2018-19 £000
Government Banking Service	62,702	129,334
Commercial banks	7,120	547
Total cash balances	69,822	129,881

The notes on pages 29 to 39 form part of this statement.

Notes to the Trust Statement

1. Statement of Accounting Policies

The Trust Statement is prepared in accordance with:

- the 2019-20 Financial Reporting Manual (FReM) issued by HM Treasury, in particular Chapter 8.2 which deals with Consolidated Fund revenue and Trust Statements. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as interpreted for the public sector.
- the 2019-20 accounts direction issued by HM Treasury on 19 December 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 2020.

1.3. Revenue recognition

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

1.4. Expenditure

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

1.5. Disbursements

Disbursements are shown net of impairment and write-offs in accordance with the requirements of the FReM and IFRS 9. An accrual for disbursements is made based on the value of impositions payable to parties, including compensates, 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 £30 million per annum of additional revenue raised from fixed penalties issued for motoring offences in order to fund services provided to the victims of crime. In respect of penalty notices for disorder (PND), an amount of £10 per penalty notice issued and paid is retained by the justice reform unit of MoJ in order to fund services provided to the victims of crime.

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

Revenue retained under Spending Round settlements

As part of the Spending Round 2015 settlement for the financial year ended 2019-20 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 2019-20 and 2018-19 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% (2018-19: 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% (2018-19: 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	2019-20 £000	2018-19 £000
Debts (written back) / off	2.1	14,903	(10,715)
Increase / (decrease) for year in impairment of receivables	4	241,547	228,847
Total		256,450	218,132

2.1. Debts (written back) / off

	2019-20 £000	2018-19 £000
Court fines	9,458	(8,322)
Criminal court charges	217	241
Crown prosecutors' costs	529	(599)
Prosecutors' costs	3,415	(2,185)
Compensation	765	530
Victim surcharge	519	(380)
Total	14,903	(10,715)

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 2 individual amounts over £300,000 totalling £1.68 million included in debts written off in 2019-20 both accounts related to dissolved companies and none in 2018-19.

There are no other losses or special payments reportable.

3. Revenue retained by the Ministry of Justice

	2019-20	2018-19
	£000	£000
Revenue retained by MoJ towards the cost of collection and administration:		
Criminal court charges	2,499	3,089
	2,499	3,089
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	88	108
	30,088	30,108
Revenue retained by MoJ under Spending Round settlements:		
Retained from fine collections	257,632	254,552
Retained from fixed penalty collections	75,080	73,778
	332,712	328,330
Total	365,299	361,527

4. Receivables

2019-20	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 2019	89,040	76,847	165,080	70,453	712,050	28,140	26,845	2,065,303	3,233,758
New impositions	28,150	44,424	93,224	28,775	316,219	(800)	109,246	195,839	815,077
Confiscation order interest								98,064	98,064
Collections	(27,797)	(39,689)	(76,619)	(29,039)	(252,876)	(2,499)	(105,165)	(134,254)	(667,938)
Written back / (written-off)	(765)	(519)	(3,415)	(529)	(9,458)	(217)	-		(14,903)
At 31 March 2020	88,628	81,063	178,270	69,660	765,935	24,624	30,926	2,224,952	3,464,058
Impairment									
At 1 April 2019	51,019	54,864	102,226	45,118	405,462	22,729	-	1,904,113	2,585,531
Increase/ (decrease) for the year	1,328	2,816	15,159	595	66,946	(1,614)		156,317	241,547
At 31 March 2020	52,347	57,680	117,385	45,713	472,408	21,115	-	2,060,430	2,827,078
Receivables Net Book Value at 31 March 2020	36,281	23,383	60,885	23,947	293,527	3,509	30,926	164,522	636,980
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

4.1. Confiscation order debt – value banding by lead agency

	2019-20				2018-19			
	HMCTS	SFO	CPS	Total	HMCTS	SFO	CPS	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Gross debt								
Up to £250,000	234,697	332	46,988	282,017	229,063	118	49,485	278,666
£250,001 – £500,000	134,519	1,210	34,733	170,462	125,390	1,590	38,868	165,848
£500,001 – £1,000,000	185,461	2,487	54,569	242,517	176,097	2,404	50,727	229,228
Over £1,000,000	820,280	159,646	550,030	1,529,956	760,225	150,107	481,229	1,391,561
Total gross debt	1,374,957	163,675	686,320	2,224,952	1,290,775	154,219	620,309	2,065,303
Impairment								
Up to £250,000	217,812	229	35,931	253,972	207,086	78	35,647	242,811
£250,001 – £500,000	128,710	965	28,427	158,102	118,952	1,361	30,055	150,368
£500,001 – £1,000,000	180,901	2,454	45,319	228,674	170,577	2,368	42,629	215,574
Over £1,000,000	813,618	145,941	460,123	1,419,682	755,717	137,297	402,346	1,295,360
Total impairment	1,341,041	149,589	569,800	2,060,430	1,252,332	141,104	510,677	1,904,113
Net book value								
Up to £250,000	16,885	103	11,057	28,045	21,977	40	13,838	35,855
£250,001 – £500,000	5,809	245	6,306	12,360	6,438	229	8,813	15,480
£500,001 – £1,000,000	4,560	33	9,250	13,843	5,520	36	8,098	13,654
Over £1,000,000	6,662	13,705	89,907	110,274	4,508	12,810	78,883	96,201
Total net book value	33,916	14,086	116,520	164,522	38,443	13,115	109,632	161,190

The total gross debt is made up of 11,393 cases, of which: 10,684 (93.7%) are of value up to £250,000; 306 (2.7%) are between £250,001 – £500,000; 201 (1.8%) are between £500,001 – £1,000,000, and; 202 (1.8%) are over £1,000,000.

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

	2019-20				2018-19			
	HMCTS	SFO	CPS	Total	HMCTS	SFO	CPS	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Gross debt								
0 – 1 year	42,014	5,403	59,582	106,999	41,898	407	48,834	91,139
1 – 2 years	34,060	302	52,708	87,070	39,195	-	64,827	104,022
2 – 5 years	139,819	7,349	276,645	423,813	153,593	7,604	264,062	425,259
Over 5 years	1,159,064	150,621	297,385	1,607,070	1,056,089	146,208	242,586	1,444,883
Total gross debt	1,374,957	163,675	686,320	2,224,952	1,290,775	154,219	620,309	2,065,303
Impairment								
0 – 1 year	24,304	3,992	6,215	34,511	21,536	169	15,700	37,405
1 – 2 years	30,259	212	38,679	69,150	32,983	-	37,311	70,294
2 – 5 years	134,151	5,611	252,893	392,655	147,591	5,405	236,417	389,413
Over 5 years	1,152,327	139,774	272,013	1,564,114	1,050,222	135,530	221,249	1,407,001
Total impairment	1,341,041	149,589	569,800	2,060,430	1,252,332	141,104	510,677	1,904,113
Net book value								
0 – 1 year	17,710	1,411	53,367	72,488	20,362	238	33,134	53,734
1 – 2 years	3,801	90	14,029	17,920	6,212	-	27,516	33,728
2 – 5 years	5,668	1,738	23,752	31,158	6,002	2,199	27,645	35,846
Over 5 years	6,737	10,847	25,372	42,956	5,867	10,678	21,337	37,882
Total net book value	33,916	14,086	116,520	164,522	38,443	13,115	109,632	161,190

The total debt is made up of 11,393 cases, of which: 1,468 (12.9%) are between 0 – 1 years old; 859 (7.5%) are between 1 – 2 years old; 2,303 (20.2%) are between 2 – 5 years old, and; 6,763 (59.4%) are over 5 years old.

5. Payables

	2019-20		Total £000
	On which cash received	On which cash receivable	
	£000	£000	
Confiscation orders (Home Office)	20,293	164,522	184,815
Prosecutors' costs (incl. CPS Costs)	1,145	84,832	85,977
Compensation	8,465	36,281	44,746
Victim surcharge	3,261	23,383	26,644
Fines and fixed penalty receipts payable to MoJ	31,168		31,168
Other	5,490		5,490
Total	69,822	309,018	378,840

	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	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

6. Balance on the Consolidated Fund account

	2019-20 £000	2018-19 £000
Balance on the Consolidated Fund at 1 April	338,844	334,272
Net Revenue for the Consolidated Fund	(10,882)	4,572
Less: amount paid to the Consolidated Fund		
Balance on the Consolidated Fund at 31 March	327,962	338,844

The balance on the Consolidated Fund comprises:

	2019-20		Total
	On which cash received £000	On which cash receivable £000	£000
Balance on Consolidated Fund Account as at 1 April	-	338,844	338,844
Balance on Consolidated Fund Account as at 31 March	-	327,962	327,962

	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

7. Notes to the Statement of Cash Flows

	Notes	2019-20 £000	2018-19 £000
Net cash flow from operating activities is derived as follows:			
Net revenue for the Consolidated Fund	6	(10,882)	4,572
Adjustment for non-cash items:			
Increase / (decrease) in impairment provision	2	241,547	228,847
(Increase) / decrease in gross receivables		(230,300)	(232,756)
Increase / (decrease) in payables		(60,424)	(10,195)
Net cash inflow / (outflow) from operating activities		(60,059)	(9,532)

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% (2018-19: 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 future financial impact of the Covid-19 pandemic is currently unknown, however, the impact is most likely to be a short term reduction in collections due to the financial position of defendants and their ability to pay. 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	
		2019-20 £m	2018-19 £m
Projected cash collections	+10%	49.8	53.0
Projected cash collections	+5%	24.9	26.5
Projected cash collections	-10%	(49.8)	(53.0)
Projected cash collections	-5%	(24.9)	(26.5)

An assessment has been calculated on the financial impact of a delay of 12 months in the planned recovery rates for the outstanding debt as at 31 March 2020 as per the table below. Further information on the impact of Covid-19 can be found in the Performance section of the Annual Report on page 9.

Decrease in net receivables as a result of a delay of 12 months in planned recovery rates	2019-20 £m
Confiscation collections	5.9
All other imposition collections	15.6

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:

	2019-20 £000	2018-19 £000
Cash at bank	69,822	129,881
Receivables	636,980	648,227
	706,802	778,108

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 £2,827 million (2018-19: £2,586 million). 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 (HC514) details the level of expenditure incurred in 2019-20.

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.



HM Courts & Tribunals Service

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