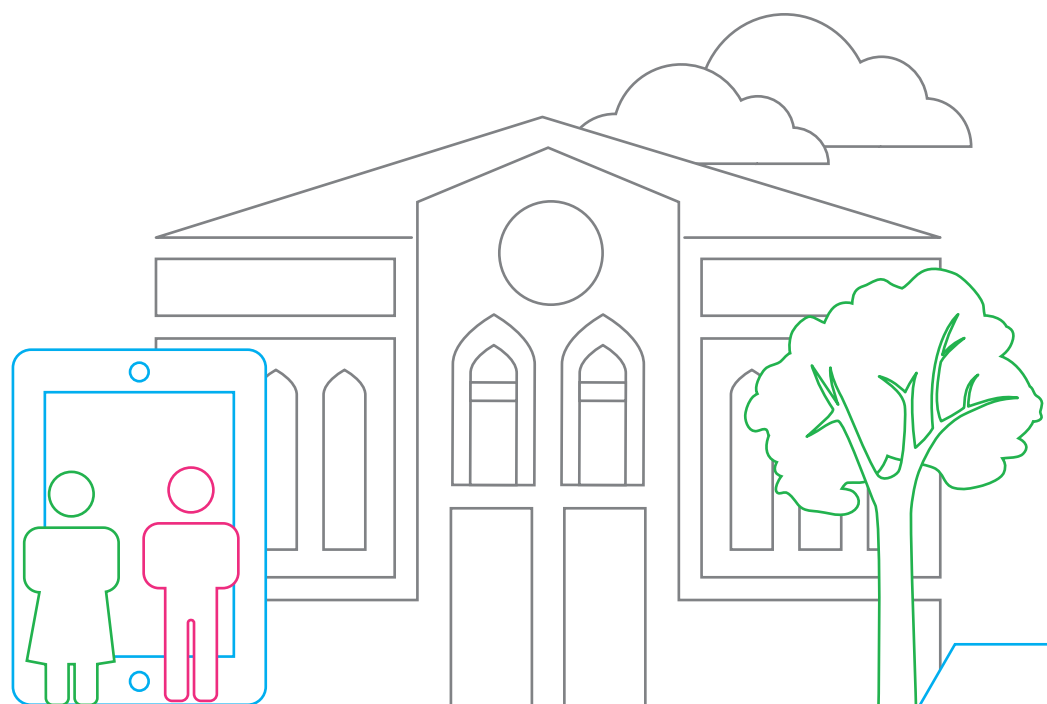




HM Courts &  
Tribunals Service

# HM Courts & Tribunals Service

## Trust Statement 2020-21





# HM Courts & Tribunals Service

## Trust Statement 2020-21

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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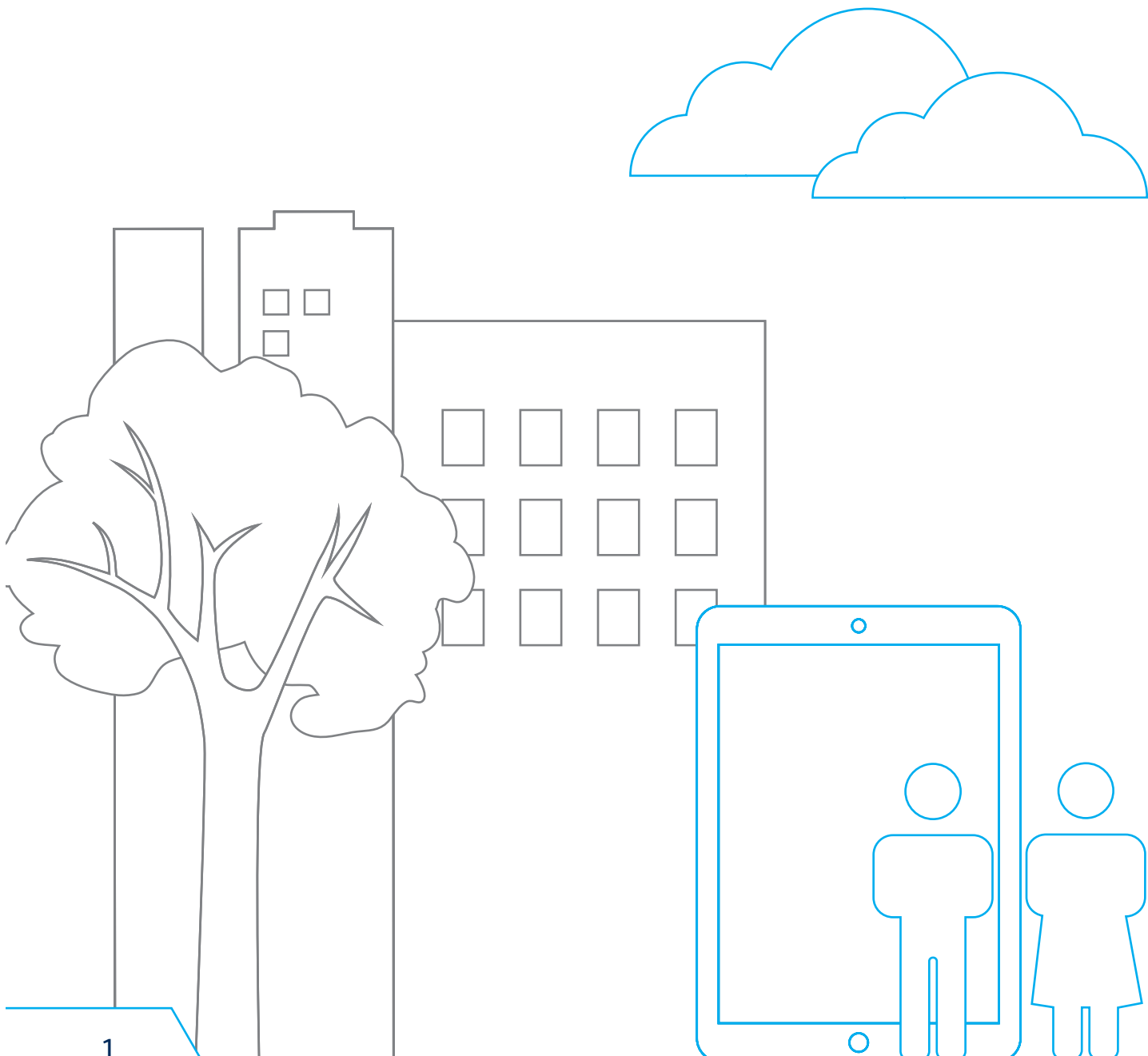
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# Section 1: Introductions

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### Accounting Officer's Foreword to the Trust Statement

**2020-21 has been an unprecedented year for Her Majesty's Courts and Tribunals Service (HMCTS), the Covid-19 pandemic has impacted every aspect of the organisation and has significantly changed the way that courts and tribunals are able to operate.**

This HMCTS Trust Statement reflects the 2020-21 financial year and the impacts that Covid-19 had on financial impositions and collections during this period. National restrictions and social distancing in place throughout 2020-21 resulted, temporarily, in both a lower number of hearings, that were able to be safely held, and a short-term curtailment of selected elements of enforcement activity resulting in a reduction in both impositions and collections.

As the first lockdown started to ease in the summer of 2020, we began to take confident steps towards recovery: re-opening buildings and expanding our capacity through the use of Nightingale Courts, and the increased use of video and audio hearings. The implementation of the recovery plan has seen increased disposals and higher levels of both impositions and collections.

This has been entirely due to the extraordinary endeavours of colleagues across the whole organisation and our partners, maintaining safety at our sites as we moved from our initial emergency response to the current position where buildings are now operational again.

The commitment, resilience and sustained efforts of HMCTS colleagues and our partner agencies making this recovery possible have been outstanding, and I'm in awe of the level of personal commitment that continues to be demonstrated. We will continue to do all that 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 Fund<sup>1</sup> 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.

HMCTS 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.

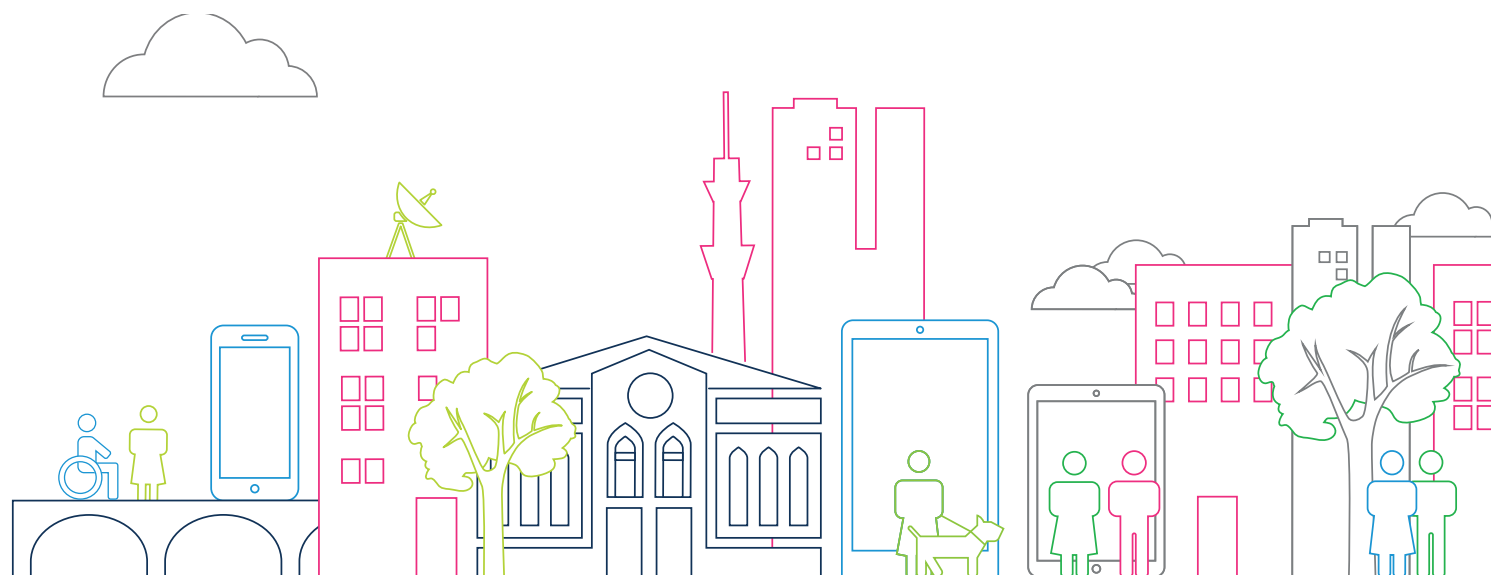
The Trust Statement accounts do not include the costs of HMCTS. These are reported separately in the HM Courts & Tribunals Service Annual Report and Accounts 2020-21 (HC405) which also sets out the general direction and priorities for the Agency, details of its management and the Chief Executive's report.

### Scope

HMCTS 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 HMCTS. Fines collected by HMCTS 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, principally, made under the Proceeds of Crime Act 2002 and can result in the seizure and sale of assets. 36.1% of confiscation orders by value are enforced by agencies other than HMCTS, including the Crown Prosecution Service (CPS), Serious Fraud Office (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.



<sup>1</sup> 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.

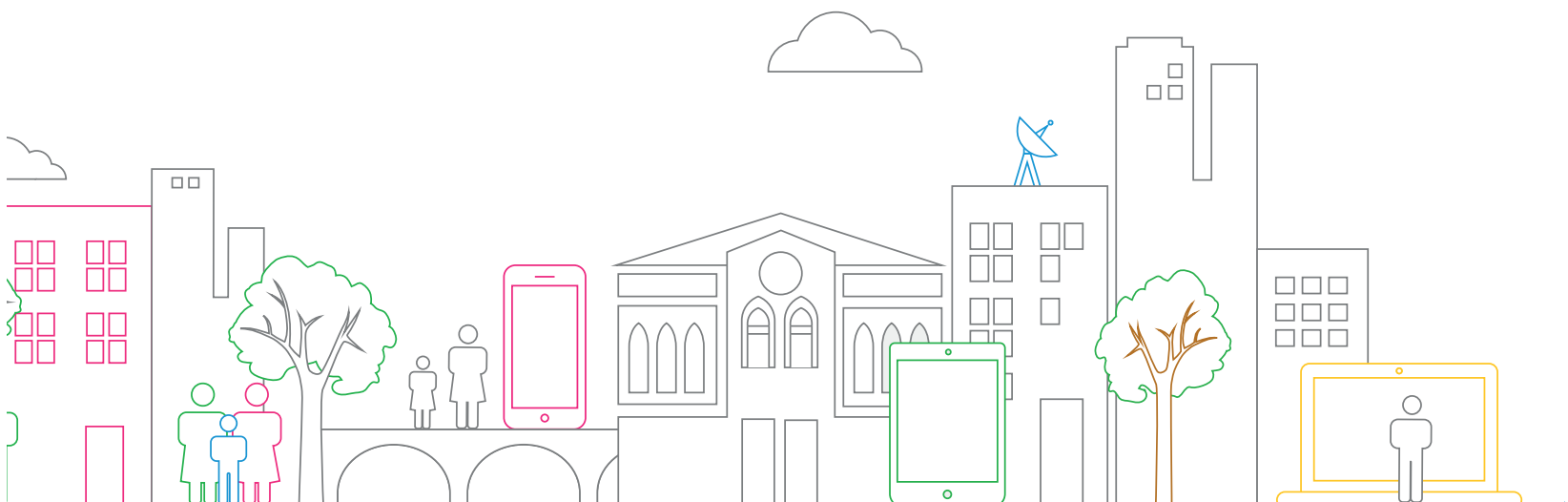
**Victim surcharge** – An additional surcharge is added to fines that are imposed and are enforced as described above. The receipts from the collection of the victim surcharge by HMCTS are passed to the justice reform directorate of the MoJ to fund victims' services.

**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 2020-21 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 remain payable. Receipts from the criminal court charge are due to the MoJ and are recorded in the MoJ departmental accounts.

**Expenditure and disbursements** – The disbursements reflect the components of an imposition issued in the year that are due to third parties and are shown as disbursements in the Statement of Revenue and Expenditure. The disbursements are shown net of impairment and write-offs. Disbursements do not reflect the receipts received in relation to the impositions, receipts from confiscation orders, prosecution costs and compensation orders are remitted to appropriate third parties, including government departments and the victims of crime, once received.

The only expenditure in the HMCTS 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 2020-21 and 2019-20 is disclosed under disbursements in the Statement of Revenue and Expenditure as Revenue retained by the MoJ.



## Section 2: Our performance

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### 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 – principally issued under the Proceeds of Crime Act

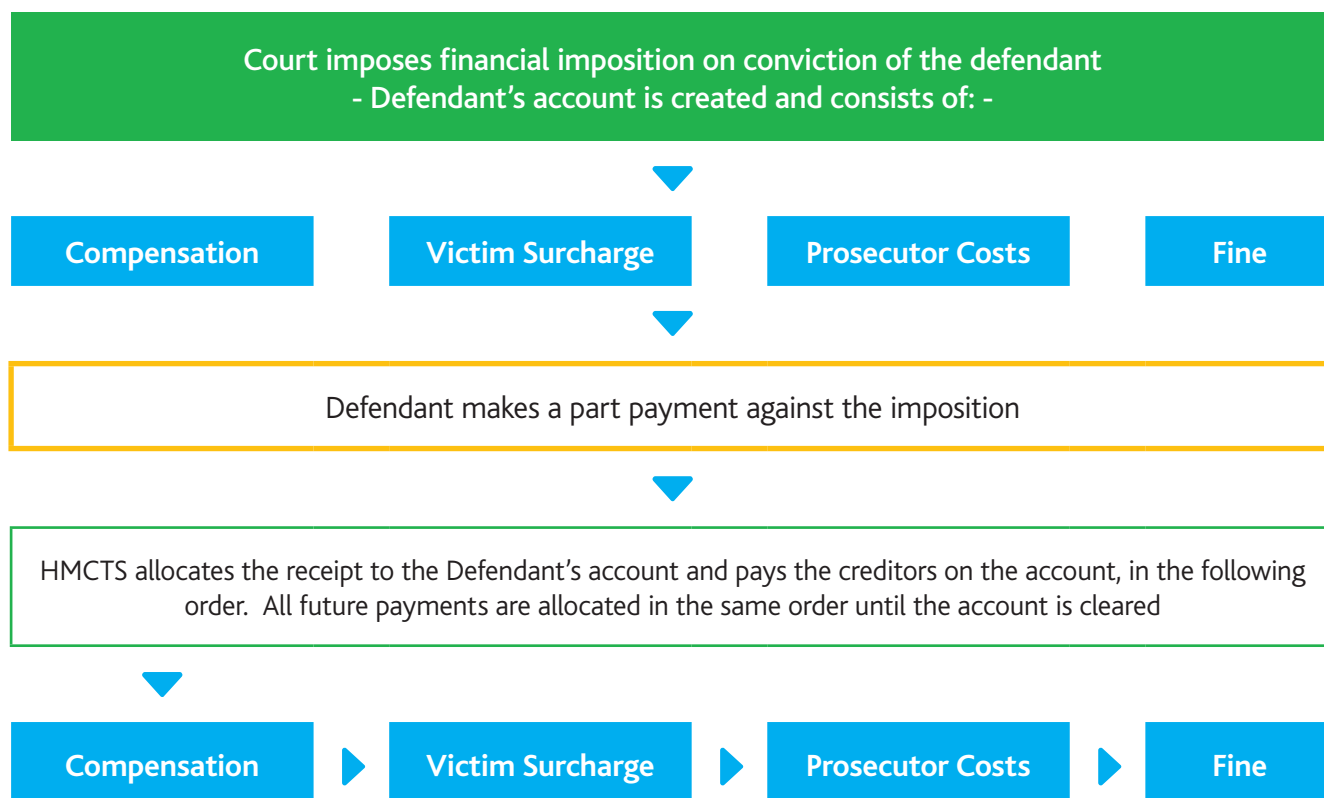
Impositions can also take the form of a penalty notice issued by the Police or other sums which are enforced by the magistrates' court as if there has been a conviction.

Upon the creation of the imposition, HMCTS 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 £3,464 million was outstanding at the start of the 2020-21 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.

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 2020-21 the overall impact of these adjustments show that HMCTS wrote off £11.7 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	£3,464 million
+	
New Impositions made in year	£669 million
-	
Collections	£518 million
-	
Write Offs	£11 million
=	
Gross debt	£3,604 million
-	
Impairment charge	£3,067 million
=	
Closing debt balance	£537 million

### Financial Analysis 2020-21

#### Covid-19

During the first lockdown period, starting in March 2020, HMCTS had a significantly reduced number of courts sitting, with a number of sites being temporarily closed, this resulted in fewer impositions being issued during this period. In addition, as a result of both the lockdown and travel restrictions, HMCTS was unable to actively enforce outstanding impositions, the impact of which was a small, short term reduction in collections during the first lockdown period.

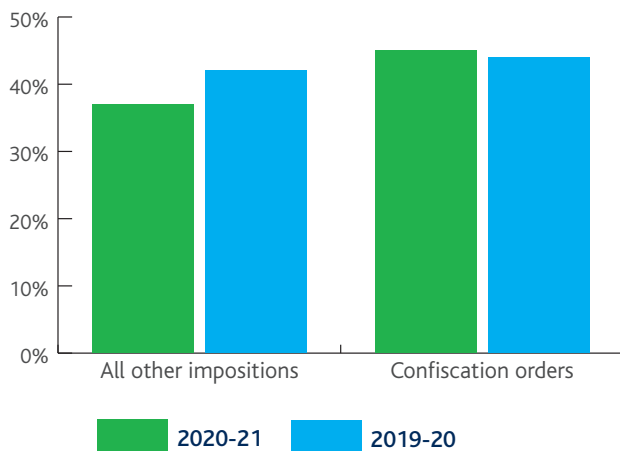
In Summer 2020 and throughout the Autumn HMCTS instigated a recovery plan and began to re-open court sites and to recommence sittings, this included the use of additional sites, known as Nightingale Courts, to increase court capacity, allow for social distancing and manage the backlog of cases that had accrued. As part of the recovery programme HMCTS also recommenced active enforcement of outstanding impositions.

In January 2021 a further full lockdown of the country was ordered however, unlike in the first lockdown, HMCTS has been able to keep Court sites open and continue to use the Nightingale Courts as well as hold a significant number of courts virtually using video conferencing facilities. As a result both impositions and enforcement activities have continued during this period.

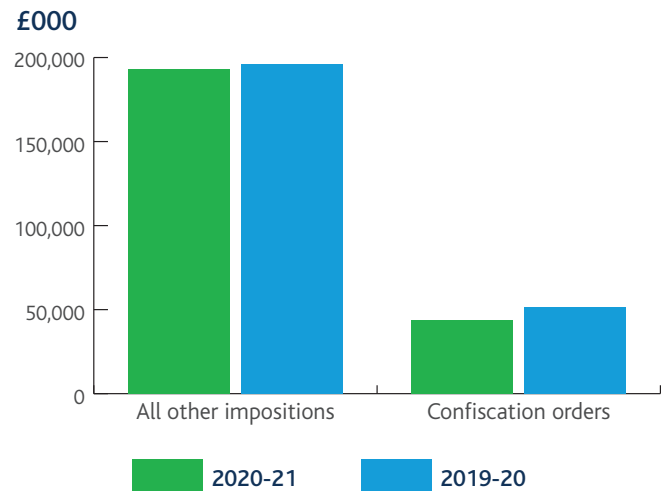
Analysis of the impositions made in 2020-21 indicate that for confiscation orders levels are operating at approximately 62% of the prior year period and for all other impositions it is 69%.

In relation to the collections for the impositions imposed in 2020-21, Chart 1 below illustrates that of the £473 million issued (excluding confiscation interest) £161 million has already been collected, with 42% of the confiscation orders made in 2020-21 (44% for 2019-20) and 37% of other impositions (42% for 2019-20) already collected, this despite the limited enforcement options available to HMCTS during the lockdown periods.

**Chart 1: Percentage of impositions collected in year of issue**



**Chart 2: Collections relating to impositions made in prior years**



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 and individual assessment of high value cases. 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 strong collections throughout 2020, despite limited enforcement and also 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 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.

The models used to calculate the amount of recoverable debt (the impairment models) analyse the collections by financial year. Chart 2 above details the amount of collections received in both 2020-21 and 2019-20 that relate to debt imposed in prior years and as can be seen the collection rates are very similar.

## Impositions revenue

Total imposition revenue decreased from £918 million in 2019-20 to £674 million in 2020-21, a decrease of £244 million. This was principally driven by the impact of Covid-19 on the operation of the Courts but also due to a reduction in the number of very high value impositions that were made in the year.

Imposition revenue is made up of a number of components one of which is the Criminal Court Charge. In 2020-21 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

Disbursements reflect the components of an imposition issued in the year that are due to third parties. The disbursements are shown net of impairment and write-offs.

Disbursements do not reflect the receipts received in relation to the impositions, receipts from confiscation orders, prosecution costs and compensation orders are remitted to appropriate third parties, including government departments and the victims of crime, once received. Note 3 details an analysis of the disbursement charges.

Total disbursements and expenditure have decreased by £199 million from £929 million in 2019-20 to £730 million in 2020-21.

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

- The write off of debts of £11.7 million (£15 million written off in 2019-20) this is predominantly as a result of the dissolution of companies
- An increase in the impairment charge

The net revenue to the consolidated fund reflects the components of the impositions that are, by statute due to the HM Treasury consolidated fund less the change in impairment value and any write offs that relate to this type of imposition.

Net revenue to the consolidated fund is a negative £55.5 million a £44.7 million reduction from a negative £10.9 million in 2019-20. Note 6 provides an analysis of this charge.

## Collections

Enforcement activity was impacted by the lockdown periods, however, the collections relating to both in year impositions and those relating to prior year impositions remain strong.

- Collections relating to impositions made in prior years have recovered approximately 54% for confiscation and 92% for other impositions of the amount that the HMCTS models predicted would be collected (2019-20 61% for confiscation and 92% for other impositions).
- HMCTS has significant powers to enforce debt including the use of attachment of earnings and attachment of benefit orders which have contributed to the strong collection patterns.

## 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, for accounting purposes only, 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.

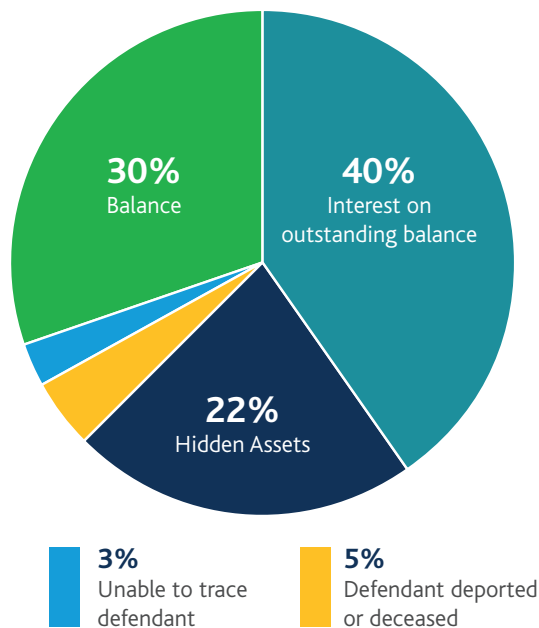
The largest impairment charge in the Financial Statements relates to the charge on confiscation orders, this reflects the complexity and difficulty in enforcing payment where assets may have been hidden or held overseas, or where a large proportion of the debt is interest. The total value of confiscation debt estimated to be recoverable as at 31 March 2021 is £143 million compared to a gross debt of £2,353 million.

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. In addition, the application of the interest charge (8% per annum) to an account which is already overdue

and unpaid increases the debt balance daily. From an accounting perspective, components of the debt such as interest, hidden assets or orders where the offender has been deported 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.

Chart 3 below illustrates that 40% of all outstanding confiscation debt relates to interest that has accrued on the overdue order balances. Of the remaining balance, 27% relates to orders where the enforcement agency have established that there are hidden assets or where the defendant has been deported or is deceased. The remaining 30% may still prove problematic to enforce as they can still contain orders where the assets have been given away or are complicated by complex asset ownership, it is as a result of factors such as these that the balance is impaired to the degree that it is.

**Chart 3: Analysis of outstanding confiscation orders**



**Chart 4: Change in confiscation debt components over 5 years**

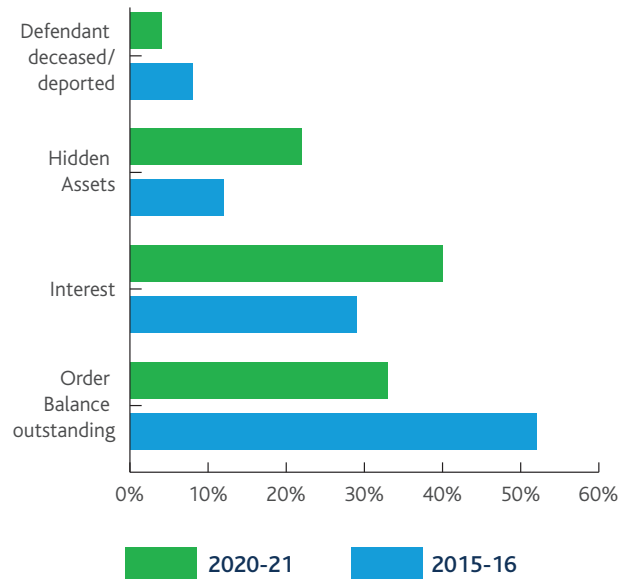


Chart 4 above illustrates the changes in the components of the confiscation debt over the last 5 years, as can be seen from the chart, interest has increased from being 28% of the total balance outstanding in 2015-16 to 40% in 2020-21.

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 2020-21 the highest order raised was for £37.6 million 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.



**1,725**  
(69% of the total)

The number of confiscation orders accounted for in 2020-21 that were for £10,000 or less in value

**62%** (1,080 orders)

The percentage of the £10,000 or less confiscation orders that have been issued and paid in full in 2020-21



**£37.6** million

The value of the largest confiscation order accounted for in 2020-21

**14 orders**



The number of confiscation orders (0.6% by volume) accounted for in 2020-21 that are for over £1 million in value, these orders account for 52% of the value of all orders accounted for in 2020-21



**£21.7** million

The total amount of confiscation order receipts received in 2020-21 that were for over £1 million each



### New Confiscation orders accounted for in 2020-21

**Chart 5: Value and volume of orders accounted for in 2020-21**

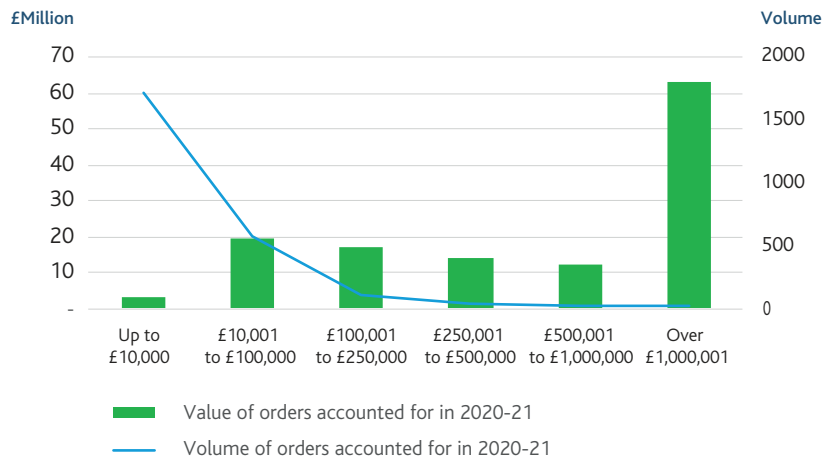
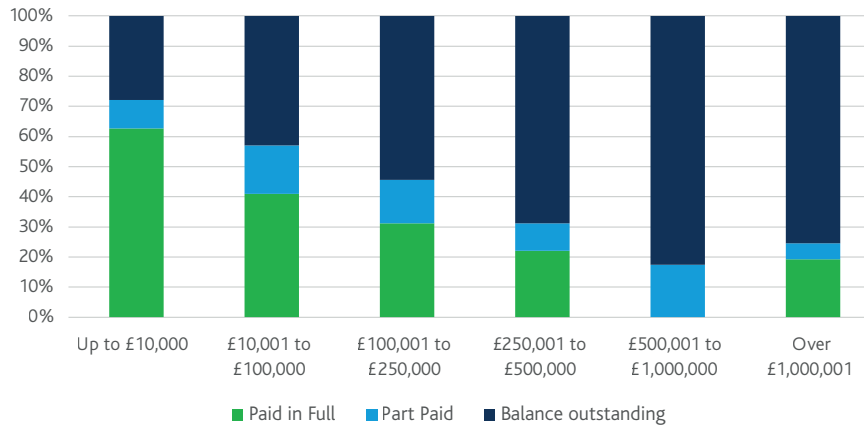


Chart 5 demonstrates that the majority of orders (2,666 orders, 69%) accounted for in 2020-21 were for a value of under £10,000. Whereas the volume of over £1 million orders are of a much smaller proportion (27 orders, 0.6%) However, the over £1 million orders represent 52% of the total value of orders accounted for compared to 2% for the under £10,000 orders.

The size of the order also impacts the collections, Chart 6 illustrates that as the value of the order increases the amounts paid in full in the year of issue decrease, with over 62% of the less than £10,000 orders being paid in full in the year of issue, compared to 19% of the over £1 million orders.

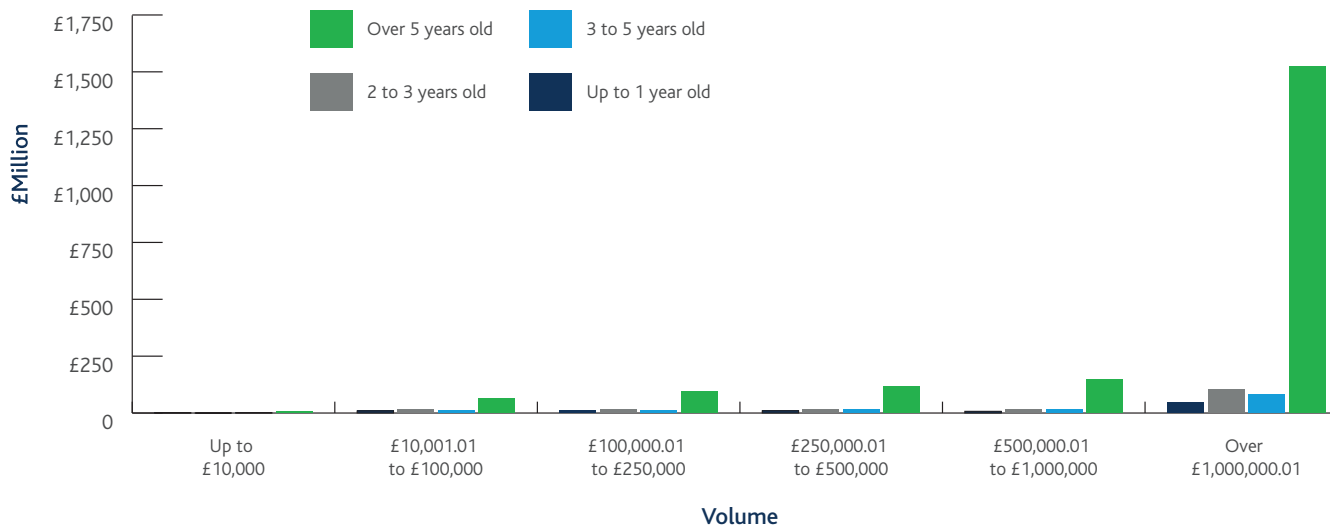
**Chart 6: Status of confiscation orders accounted for in 2020-21**



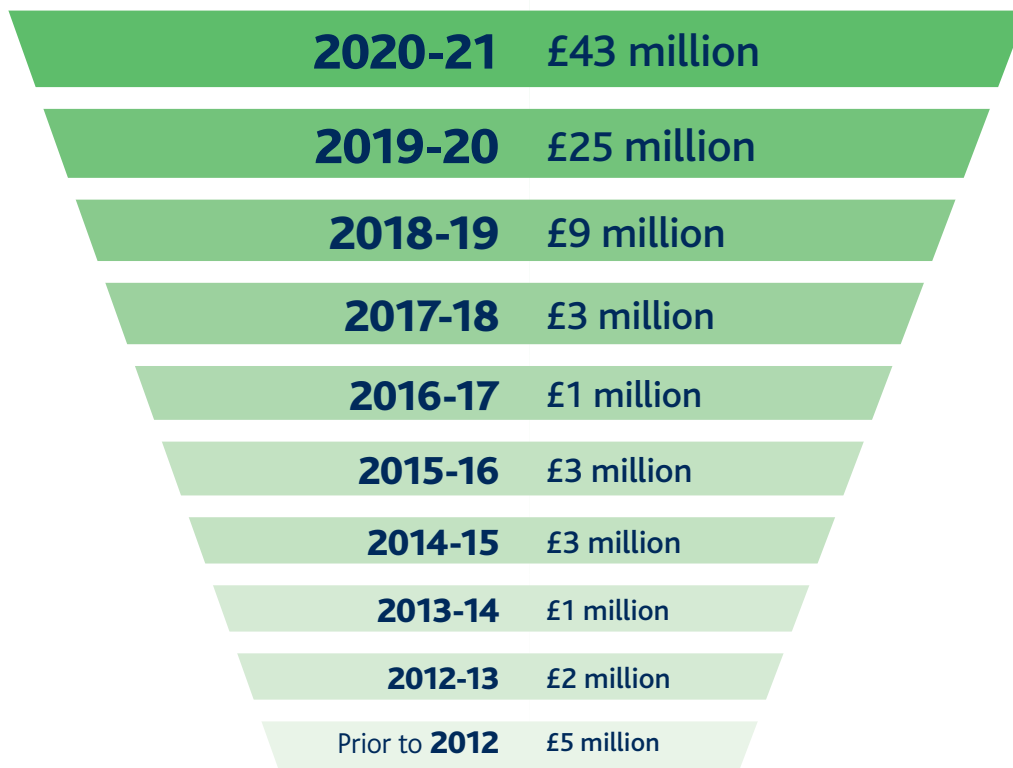
In higher value orders, it is very often the case that a significant proportion of the order value relates to assets which are either hidden or held overseas, making enforcement very difficult. However, by issuing the order at the full value the Court has effectively deprived the defendants of the use 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 and the debt will accrue interest until the order is paid in full.

The graph below illustrates the age analysis of the debt, as can be seen it is predominantly the high value orders that remain unpaid over a long period of time, as explained above this is often due to the order containing an element of hidden assets or assets that are being held overseas and cannot be liquidated.

**Chart 7: Analysis of outstanding confiscation orders**



However, as confiscation orders have no expiration period, enforcement continues regardless of the age of the order. As an example, £51.8 million (54.6%) of the total receipts collected in 2020-21 relate to orders issued in prior years with the following diagram detailing the imposition year to which they relate. As can be seen HMCTS continues to enforce the debt regardless of the age of the imposition.

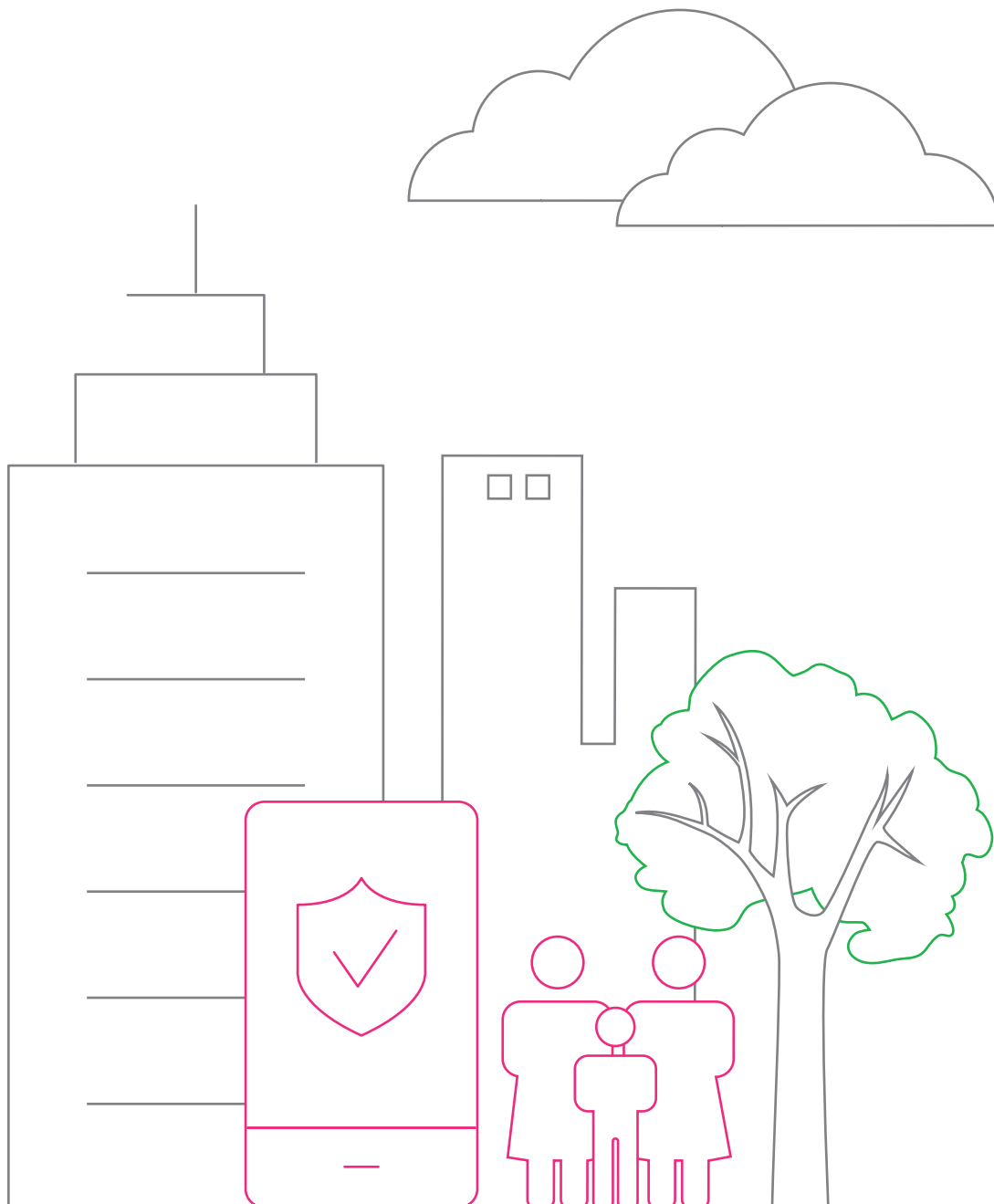


Further analysis of confiscation order debt by value and lead enforcement agency is provided in note 4 to the Trust Statement.

Kevin Sadler  
Acting Chief Executive and Accounting Officer  
14 September 2021



## 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 2020-21 Trust Statement was £110,000 (2019-20: £110,000). This is charged on a notional basis and recognised in the HM Courts & Tribunals Service Annual Report and Accounts 2020-21.

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 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.

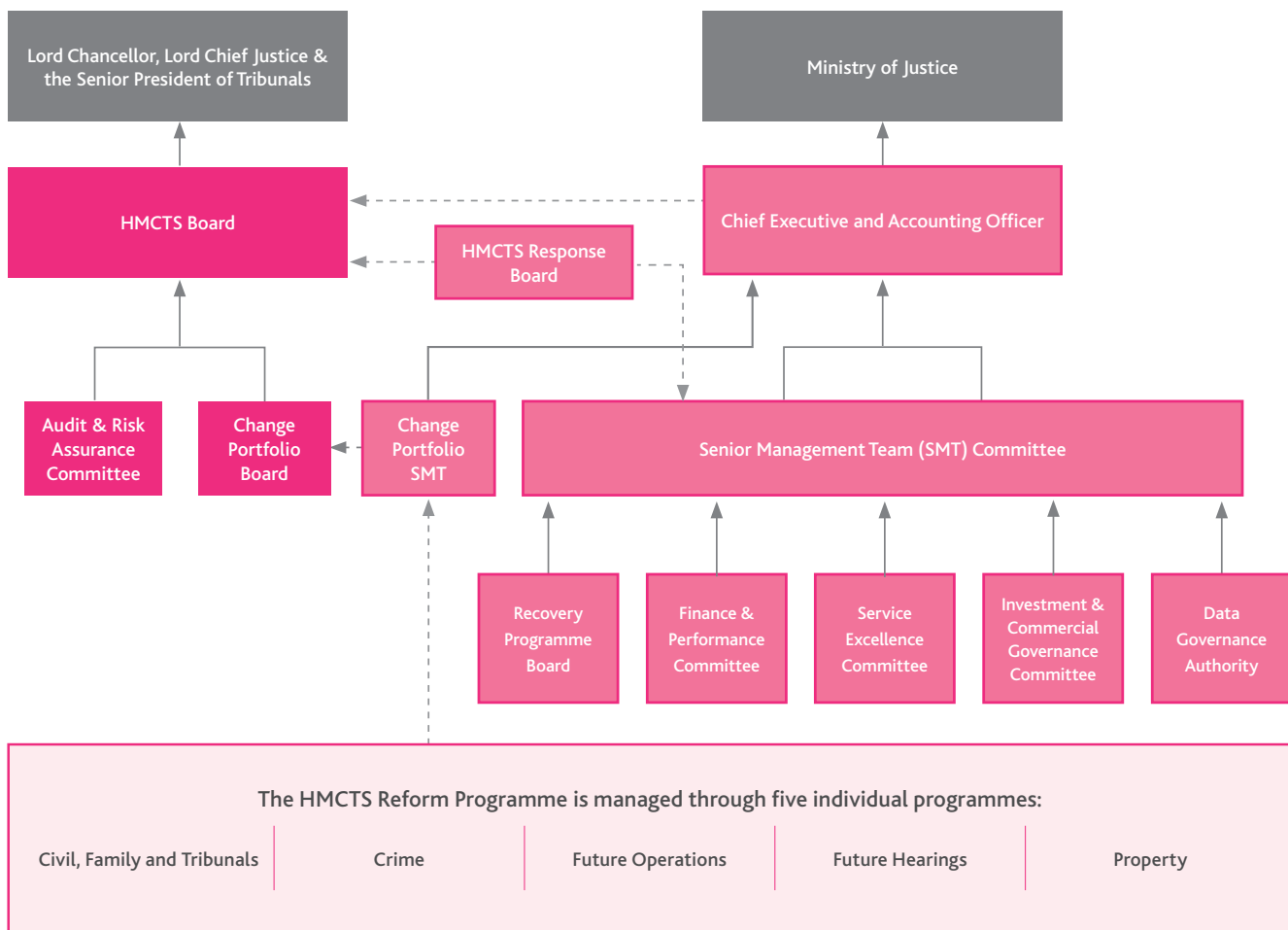
As Acting Chief Executive I am responsible for the day-to-day operations and administration of the agency and leadership of its employees. I work under the general direction of the HMCTS Board. As Acting Chief Executive and Accounting Officer I am accountable to the MoJ Permanent Secretary and Principal 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 that HMCTS has had effective governance, risk management and internal controls in place during 2020-21. 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 2020-21 (HC405). This report covers areas that are specific to the Trust Statement.

### Governance framework and management structure 2020-21

Our governance is delivered through the HMCTS Board and executive senior management team forum and their sub-committees. The top-level governance structure as at 31 March 2021 is set out below.



During 2020-21, a number of changes were made to the governance structure, which include the establishment of new forums to support our response and recovery in relation to the Covid-19 pandemic. These revisions and additional changes as a result of a review of the governance structure will be reflected in the HMCTS Delegation of Authority for 2021-22.

At the start of the pandemic outbreak, a Covid-19 business contingency plan was put in place and a Gold Command structure managed our organisation's response to the crisis. The Gold Command structure is supported by the HMCTS Covid-19 Response Team who support the business and engage with stakeholders including the MoJ Departmental Operations Centre and the Criminal Justice System Strategic Command. Our Gold-Silver-Bronze incident management structure ensures that issues are properly understood locally before being escalated, to gain uniformity across the organisation and maintain a clear line of accountability. The Covid-19 Gold Command and Covid-19 Response Board were subsequently replaced by the HMCTS Response Board in November 2020.

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

This code applies to MoJ directly and we have 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 was one control breach during the year. In the first 3 months of the financial year a number of unpaid fixed penalty notices were not fine registered, the late registration was caused by human error. All the affected notices have now been fine registered and additional controls have been implemented in all the offices to prevent the error from occurring in the future.

### **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 Management 2020-21

We refreshed our risk strategy this year and introduced the new HMCTS Risk Management Framework in November 2020. The Framework conforms to the key principles and concepts in the HM Government publication 'The Orange Book', and it brings together our overarching risk strategy and practical guidance on how risks and issues should be managed at all levels.

Our new framework reflects the maturity of risk management in HMCTS and enables us to focus on where there is more to do and to formalise the risk arrangements that would apply in the event of another emergency situation, and activation of our national Gold Command structure.

## Risk Assessment 2020-21- Emergency Risk Profile (Contingent Risk Register)

In March 2020, the HMCTS Gold Command Structure was stood up in response to Covid-19 and to facilitate rapid decision making. It was under this structure that we reviewed our risks in the context of the pandemic, to identify those strategic risks we would need to manage to take account of the extraordinary circumstances in which we were operating. These risks included (among others) the safety of our people, judiciary and our court and tribunal users, and how we needed to refocus our business to mitigate the substantial impact to performance and the potential impact on our suppliers. The contingency risk register was put in place as an emergency provision at the outset of the Covid-19 pandemic. At that time the risks we were dealing with were immediate and proximate and it was appropriate that we moved to the contingency register to reflect the risks with which we were dealing.

In addition, the HMCTS Audit and Risk Assurance Committee (ARAC) undertook a quarterly challenge and assurance review of the risk register. The HMCTS Board was provided with the risk dashboard each month, which outlined movements and updates. The risks which were managed through the business as usual register continue to be managed at directorate level and reported on as appropriate, through ARAC.

The Gold Command transitioned into a recovery phase from late May 2020 and was reactivated in January 2021. Throughout this period, the contingency risk register was maintained. In parallel to the development of this contingency risk register, we reviewed and simplified our well-established quarterly risk and assurance reporting processes across the organisation, in an effort to temporarily ease the burden on our front-line staff working hard to keep our justice system operational. A new contingency risk and assurance framework was developed that provided the necessary assurance on how risks were being managed, but in a more streamlined format to capture updates with as little resource impact as possible. This approach received such positive feedback that we have adopted a number of the changes permanently.

## 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.



## Section 3: Our controls and Governance

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. 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' on the organisation, which means some improvements are required to enhance the adequacy and effectiveness of our framework of governance, risk management and control. There were no specific internal audits completed on this Trust Statement.

### National Audit Office (NAO) reports

There were no HMCTS related NAO reports published during 2020-21. NAO will undertake a review of 'Managing the backlog in criminal courts' during autumn 2021 and details are available at [www.nao.org.uk/work-in-progress/managing-the-backlog-in-criminal-courts/](http://www.nao.org.uk/work-in-progress/managing-the-backlog-in-criminal-courts/).

### 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 (HC405). Arrangements are kept under continuous review to adapt to our changing risk environment.

Kevin Sadler

Acting Chief Executive and Accounting Officer

14 September 2021

## Section 4: External scrutiny

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# 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 2021 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. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards as interpreted by HM Treasury's Government Financial Reporting Manual.

In my opinion:

- the HMCTS Trust Statement gives a true and fair view of the state of affairs as at 31 March 2021 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 for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK), applicable law 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 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the HMCTS in accordance with the ethical requirements that are relevant to my audit of 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

In auditing the financial statements, I have concluded that the HMCTS Trust Statement's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the HMCTS Trust Statement's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the Accounting Officer with respect to going concern are described in the relevant sections of this certificate.

The going concern basis of accounting for HMCTS Trust Statement is adopted in consideration of the requirements set out in HM Treasury's Government Reporting Manual, which require entities to adopt the going concern basis of accounting in the preparation of the financial statements where it anticipated that the services which they provide will continue into the future.

## Other Information

The other information comprises information included in the Annual Report but does not include the financial statements and my auditor's certificate thereon. The Accounting Officer is responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my certificate, 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 I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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, based on the work undertaken in the course of the audit, 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

In the light of the knowledge and understanding of the HMCTS and its environment obtained in the course of the audit, I have not identified material misstatements in the Performance and Accountability Report. 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.

### Responsibilities of the Accounting Officer for 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 in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as the Accounting Officer determines is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error.
- assessing the HMCTS Trust Statements' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accounting Officer anticipates that the services provided by the HMCTS Trust Statement will not continue to be provided in the future.

### 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.

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a certificate that includes my opinion. 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.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the audited entity's head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the HMCTS Trust Statement's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the HMCTS Trust Statement's controls relating to adherence with the Government Resources and Accounts, Act 2000, Managing Public Money, the Proceeds of Crime Act (2002), the Sentencing Act (2020) & the Criminal Justice Act (2003);
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: posting of unusual journals.
- obtaining an understanding of the HMCTS Trust Statement's framework of authority as well as other legal and regulatory frameworks that the HMCTS Trust Statement operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Trust Statement. The key laws and regulations I considered in this context included the Government Resources and Accounts, Act 2000, Managing Public Money, the Proceeds of Crime Act (2002), the Sentencing Act (2020) & the Criminal Justice Act (2003); and
- other risk assessment procedures performed, particular ensuring impositions are in line with relevant legislation.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management and the Audit and Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of my certificate.

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

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.

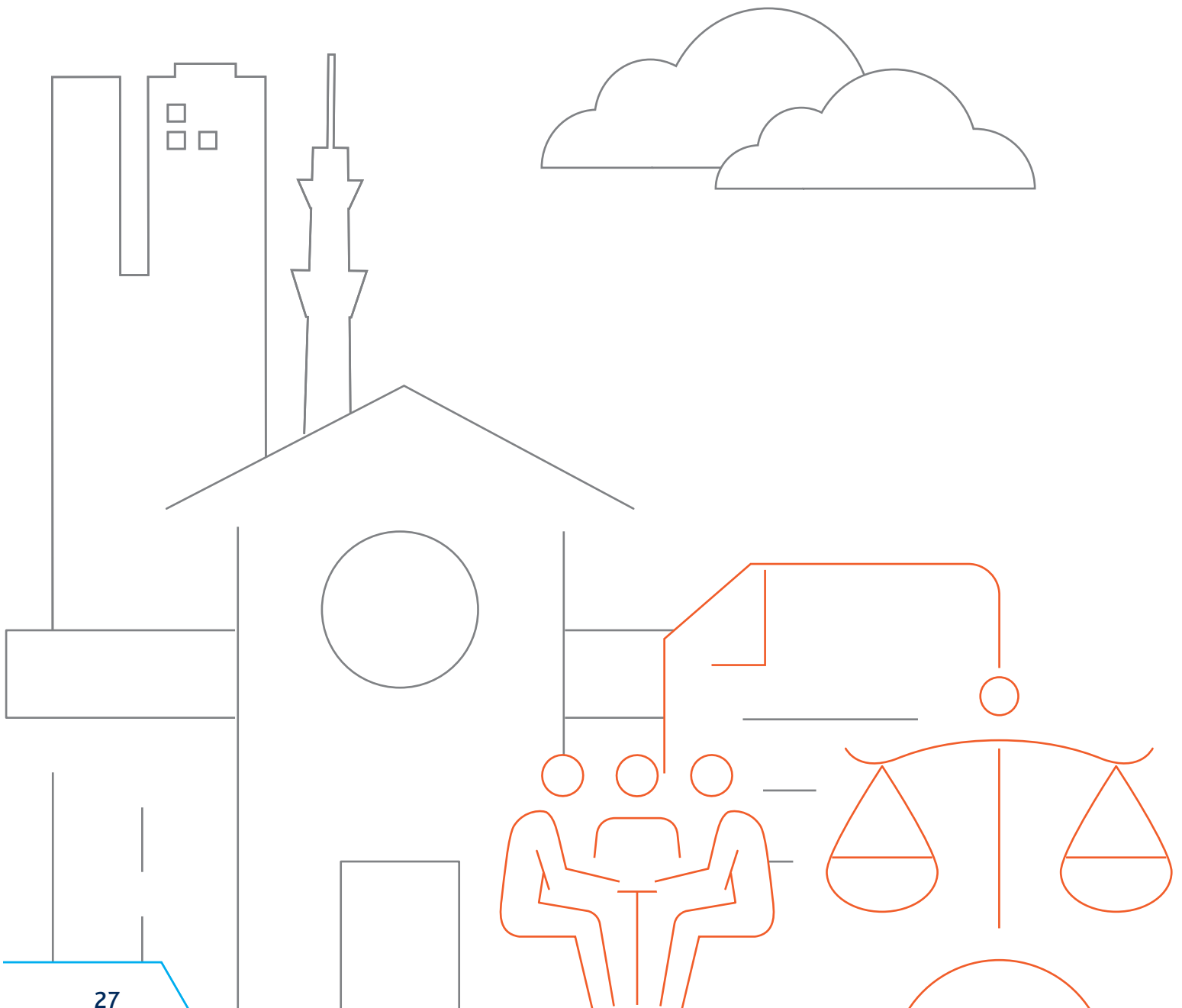
Gareth Davies  
Comptroller and Auditor General

17 September 2021

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 2021

	Notes	2020-21 £000	2019-20 £000
<b>Impositions revenue</b>			
<b>Fines and penalties</b>			
Court fines		217,479	316,219
Miscellaneous receipts		5,031	4,759
Criminal court charge (remissions) / impositions		(214)	(800)
Fixed penalty notices		95,948	109,246
Crown prosecutors' costs		21,169	28,775
Prosecutors' costs		53,076	93,224
Compensation		21,756	28,150
Confiscation orders		223,323	293,903
Victim surcharge		36,647	44,424
<b>Total impositions revenue</b>		<b>674,215</b>	<b>917,900</b>
<b>Less expenditure</b>			
Credit losses			
Debts Written off/(back)	2.1	11,713	14,903
Increase/(Decrease) in Impairment Charge	4	239,611	241,547
<b>Total expenditure</b>		<b>251,324</b>	<b>256,450</b>
<b>Less disbursements</b>	3		
Revenue retained by the Ministry of Justice	3.1	285,885	365,299
Prosecutors' costs for the Crown Prosecution Service		22,635	27,651
Prosecutors' costs		42,167	74,650
Compensation for other parties		19,667	26,057
Confiscation orders for Home Office		73,595	137,586
Victim surcharge for the Ministry of Justice		34,526	41,089
<b>Total disbursements</b>		<b>478,475</b>	<b>672,332</b>
<b>Total expenditure and disbursements</b>		<b>729,799</b>	<b>928,782</b>
<b>Net revenue for the Consolidated Fund</b>	6.1	<b>(55,584)</b>	<b>(10,882)</b>

The notes on pages 31 to 42 form part of this statement.

## Statement of Financial Position as at 31 March 2021

	Notes	2020-21 £000	2019-20 £000
<b>Current assets</b>			
Receivables	4	537,056	636,980
Cash at bank – fines & other impositions		87,051	59,288
Cash at bank – fixed penalties		28,704	10,534
<b>Total assets</b>		<b>652,811</b>	<b>706,802</b>
<b>Current liabilities</b>			
Payables	5	380,433	378,840
<b>Total liabilities</b>		<b>380,433</b>	<b>378,840</b>
<b>Total net assets</b>		<b>272,378</b>	<b>327,962</b>
Represented by:			
<b>Balance on Consolidated Fund</b>	<b>6.2</b>	<b>272,378</b>	<b>327,962</b>

Kevin Sadler

Acting Chief Executive and Accounting Officer

14 September 2021

The notes on pages 31 to 42 form part of this statement.

## Statement of Cash Flows for the period ended 31 March 2021

	Notes	2020-21 £000	2019-20 £000
Net cash inflow / (outflow) from operating activities	7	45,933	(60,059)
Cash paid to the Consolidated Fund	6.2	-	-
<b>Increase / (decrease) in cash in the period</b>		<b>45,933</b>	<b>(60,059)</b>

## Analysis of changes in net funds

	2020-21 £000	2019-20 £000
Net funds at beginning of period – 1 April	69,822	129,881
Net funds at end of period – 31 March	115,755	69,822
<b>Increase / (decrease) in cash in the period</b>	<b>45,933</b>	<b>(60,059)</b>

## The following balances as at 31 March were held at:

	2020-21 £000	2019-20 £000
Government Banking Service	115,223	62,702
Commercial banks	532	7,120
<b>Total cash balances</b>	<b>115,755</b>	<b>69,822</b>

The notes on pages 31 to 42 form part of this statement.

## Notes to the Trust Statement

### 1. Statement of Accounting Policies

The Trust Statement is prepared in accordance with:

- the 2020-21 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 2020-21 accounts direction issued by HM Treasury on 23 December 2020 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 2021.

#### 1.3. Revenue recognition

Fines and penalties are measured in accordance with Financial Reporting Manual (FReM), chapter 8.2. As there are no specific performance obligations associated with receiving revenue from fines and penalties, the revenue is considered to be a non-exchange transaction and therefore outside the scope of IFRS 15. They are measured at the fair value of amounts received or receivable, net of judicial cancellations and remissions. Revenue is recognised at the full value of the imposition 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 remain 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 2020-21 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 2020-21 and 2019-20 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% (2019-20: 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

The Trust Statement enforces the full value of impositions ordered by court, writing this debt off only in specific circumstances such as company liquidation. The details of debt write-offs in year are disclosed in Note 2.1. However, the FReM requires the Trust Statement to include an expected credit loss allowance to estimate the value of outstanding impositions uncollectable, which is to be measured in accordance with IFRS 9, as adapted by the FReM. As a result, receivables for fines, penalties and confiscation orders are measured at amortised cost less an expected credit loss allowance. This allowance is calculated as the amount required 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 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% (2019-20: 3.7%) to calculate the net present value. Due to limitations in the data reports which can be extracted from the Libra system further segmentation of the debt, such as to differentiate between companies and individuals or debtors on payment plans such as attachments of earnings is not currently possible.

HMCTS has considered how the adverse macroeconomic conditions due to COVID-19 may impact collection rates in-line with IFRS 9. Despite the current Covid-19 situation our current strong collection rates of both historic and in year impositions means that our use of historic collection rates is likely to still represent a suitable factor in estimating future collection. HMCTS accept that, in the current economic climate, there is limited forward-looking data to underpin the assessment. However, HMCTS has considerable enforcement powers including the use of attachment of benefits and earnings and ultimately custodial sentences for non payment, this linked with the current strong collection rates have resulted in our assessment that the current impairment levels are appropriate.

A sensitivity analysis of the key assumption of a change in the collection rate (caused by under or over recovery of the predicted rates) used in the impairment calculation is included in note 8 to these Financial Statements.

## 2. Credit losses

	Notes	2020-21 £000	2019-20 £000
Debts written off	2.1	11,713	14,903
Increase / (decrease) for year in impairment of receivables	4	239,611	241,547
<b>Total</b>		<b>251,324</b>	<b>256,450</b>

### 2.1. Debts written off

	2020-21 £000	2019-20 £000
Court fines	8,797	9,458
Criminal court charges	150	217
Crown prosecutors' costs	519	529
Prosecutors' costs	1,308	3,415
Compensation	464	765
Victim surcharge	475	519
<b>Total</b>	<b>11,713</b>	<b>14,903</b>

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 6 individual amounts over £300,000 totalling £2.77 million included in debts written off in 2020-21, all accounts related to dissolved companies (2 in 2019-20).

The details of the amounts written off in excess of £300,000 are as follows:

Reason	Amount in £
Company dissolved	317,698.80
Company dissolved	354,527.42
Company dissolved	364,615.19
Company dissolved	1,015,967.99
Company dissolved	311,813.94
Company dissolved	421,231.76

There are no other losses or special payments reportable.

## 3. Disbursements

2020-21	Crown Prosecutor costs £000	Prosecutor Costs £000	Compensation £000	Confiscation orders for Home Office £000	Victim Surcharge £000
New Impositions	21,169	53,076	21,756	223,323	36,647
(Increase)/ decrease in impairment charge	1,985	(9,601)	(1,625)	(149,728)	(1,646)
(Written off)	(519)	(1,308)	(464)	-	(475)
<b>Total</b>	<b>22,635</b>	<b>42,167</b>	<b>19,667</b>	<b>73,595</b>	<b>34,526</b>

2019-20	Crown Prosecutor costs £000	Prosecutor Costs £000	Compensation £000	Confiscation orders for Home Office £000	Victim Surcharge £000
New Impositions	28,775	93,224	28,150	293,903	44,424
(Increase)/ decrease in impairment charge	(595)	(15,159)	(1,328)	(156,317)	(2,816)
(Written off)	(529)	(3,415)	(765)	-	(519)
<b>Total</b>	<b>27,651</b>	<b>74,650</b>	<b>26,057</b>	<b>137,586</b>	<b>41,089</b>

## 3.1. Revenue retained by the Ministry of Justice

	2020-21 £000	2019-20 £000
<b>Revenue retained by MoJ towards the cost of collection and administration:</b>		
Criminal court charges	2,321	2,499
	<b>2,321</b>	<b>2,499</b>
<b>Fixed penalty revenue retained by MoJ for Victims' Services:</b>		
Retained from fixed penalties for motor offences	30,000	30,000
Retained from fixed penalties for PNDs	70	88
	<b>30,070</b>	<b>30,088</b>
<b>Revenue retained by MoJ under Spending Round settlements:</b>		
Retained from fine collections	185,580	257,632
Retained from fixed penalty collections	67,914	75,080
	<b>253,494</b>	<b>332,712</b>
<b>Total</b>	<b>285,885</b>	<b>365,299</b>

## 4. Receivables

2020-21	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	£000
<b>Impositions outstanding</b>									
At 1 April 2020	88,628	81,063	178,270	69,660	765,935	24,624	30,926	2,224,952	3,464,058
New impositions	21,756	36,647	53,076	21,169	217,479	(214)	95,948	122,976	568,837
Confiscation order interest								100,347	100,347
Collections	(25,424)	(35,039)	(56,702)	(24,945)	(180,547)	(2,321)	(97,986)	(94,820)	(517,784)
Written (written-off)	(464)	(475)	(1,308)	(519)	(8,797)	(150)			(11,713)
<b>At 31 March 2021</b>	<b>84,496</b>	<b>82,196</b>	<b>173,336</b>	<b>65,365</b>	<b>794,070</b>	<b>21,939</b>	<b>28,888</b>	<b>2,353,455</b>	<b>3,603,745</b>
<b>Impairment</b>									
At 1 April 2020	52,347	57,680	117,385	45,713	472,408	21,115	-	2,060,430	2,827,078
Increase/ (decrease) for the year	1,625	1,646	9,601	(1,985)	80,309	(1,313)		149,728	239,611
<b>At 31 March 2021</b>	<b>53,972</b>	<b>59,326</b>	<b>126,986</b>	<b>43,728</b>	<b>552,717</b>	<b>19,802</b>	<b>-</b>	<b>2,210,158</b>	<b>3,066,689</b>
<b>Receivables Net Book Value at 31 March 2021</b>	<b>30,524</b>	<b>22,870</b>	<b>46,350</b>	<b>21,637</b>	<b>241,353</b>	<b>2,137</b>	<b>28,888</b>	<b>143,297</b>	<b>537,056</b>
<b>Receivables Net Book Value at 31 March 2020</b>	<b>36,281</b>	<b>23,383</b>	<b>60,885</b>	<b>23,947</b>	<b>293,527</b>	<b>3,509</b>	<b>30,926</b>	<b>164,522</b>	<b>636,980</b>



## 4.1. Confiscation order debt – value banding by lead agency

	2020-21				2019-20			
	HMCTS	SFO	CPS	Total	HMCTS	SFO	CPS	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Gross debt</b>								
Up to £250,000	243,445	328	47,785	<b>291,558</b>	234,697	332	46,988	<b>282,017</b>
£250,001 – £500,000	145,831	1,256	35,190	<b>182,277</b>	134,519	1,210	34,733	<b>170,462</b>
£500,001 – £1,000,000	198,532	2,353	54,881	<b>255,766</b>	185,461	2,487	54,569	<b>242,517</b>
Over £1,000,000	916,369	167,178	540,307	<b>1,623,854</b>	820,280	159,646	550,030	<b>1,529,956</b>
<b>Total gross debt</b>	<b>1,504,177</b>	<b>171,115</b>	<b>678,163</b>	<b>2,353,455</b>	<b>1,374,957</b>	<b>163,675</b>	<b>686,320</b>	<b>2,224,952</b>
<b>Impairment</b>								
Up to £250,000	228,613	284	38,336	<b>267,233</b>	217,812	229	35,931	<b>253,972</b>
£250,001 – £500,000	140,592	1,196	30,012	<b>171,800</b>	128,710	965	28,427	<b>158,102</b>
£500,001 – £1,000,000	194,943	2,339	48,378	<b>245,660</b>	180,901	2,454	45,319	<b>228,674</b>
Over £1,000,000	908,710	154,021	462,734	<b>1,525,465</b>	813,618	145,941	460,123	<b>1,419,682</b>
<b>Total impairment</b>	<b>1,472,858</b>	<b>157,840</b>	<b>579,460</b>	<b>2,210,158</b>	<b>1,341,041</b>	<b>149,589</b>	<b>569,800</b>	<b>2,060,430</b>
<b>Net book value</b>								
Up to £250,000	14,832	44	9,449	<b>24,325</b>	16,885	103	11,057	<b>28,045</b>
£250,001 – £500,000	5,239	60	5,178	<b>10,477</b>	5,809	245	6,306	<b>12,360</b>
£500,001 – £1,000,000	3,589	14	6,503	<b>10,106</b>	4,560	33	9,250	<b>13,843</b>
Over £1,000,000	7,659	13,157	77,573	<b>98,389</b>	6,662	13,705	89,907	<b>110,274</b>
<b>Total net book value</b>	<b>31,319</b>	<b>13,275</b>	<b>98,703</b>	<b>143,297</b>	<b>33,916</b>	<b>14,086</b>	<b>116,520</b>	<b>164,522</b>

The total gross debt is made up of 28,138 cases of which 11,465 have an outstanding order balance. Of the 11,465 cases: 10,480 (91.4%) are of a value up to £250,000; 430 (3.7%) are between £250,001 – £500,000; 282 (2.5%) are between £500,001 – £1,000,000, and; 273 (2.4%) are over £1,000,000.

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

	2020-21				2019-20			
	HMCTS £000	SFO £000	CPS £000	Total £000	HMCTS £000	SFO £000	CPS £000	Total £000
<b>Gross debt</b>								
0 – 1 year	21,685	-	63,342	<b>85,027</b>	42,014	5,403	59,582	<b>106,999</b>
1 – 2 years	42,901	8,267	65,233	<b>116,401</b>	34,060	302	52,708	<b>87,070</b>
2 – 5 years	95,610	5,789	100,813	<b>202,212</b>	139,819	7,349	276,645	<b>423,813</b>
Over 5 years	1,343,981	157,059	448,775	<b>1,949,815</b>	1,159,064	150,621	297,385	<b>1,607,070</b>
<b>Total gross debt</b>	<b>1,504,177</b>	<b>171,115</b>	<b>678,163</b>	<b>2,353,455</b>	<b>1,374,957</b>	<b>163,675</b>	<b>686,320</b>	<b>2,224,952</b>
<b>Impairment</b>								
0 – 1 year	12,072	-	45,029	<b>57,101</b>	24,304	3,992	6,215	<b>34,511</b>
1 – 2 years	33,412	8,034	30,545	<b>71,991</b>	30,259	212	38,679	<b>69,150</b>
2 – 5 years	90,489	3,692	84,165	<b>178,346</b>	134,151	5,611	252,893	<b>392,655</b>
Over 5 years	1,336,885	146,114	419,721	<b>1,902,720</b>	1,152,327	139,774	272,013	<b>1,564,114</b>
<b>Total impairment</b>	<b>1,472,858</b>	<b>157,840</b>	<b>579,460</b>	<b>2,210,158</b>	<b>1,341,041</b>	<b>149,589</b>	<b>569,800</b>	<b>2,060,430</b>
<b>Net book value</b>								
0 – 1 year	9,613	-	18,313	<b>27,926</b>	17,710	1,411	53,367	<b>72,488</b>
1 – 2 years	9,489	233	34,688	<b>44,410</b>	3,801	90	14,029	<b>17,920</b>
2 – 5 years	5,121	2,097	16,648	<b>23,866</b>	5,668	1,738	23,752	<b>31,158</b>
Over 5 years	7,096	10,945	29,054	<b>47,095</b>	6,737	10,847	25,372	<b>42,956</b>
<b>Total net book value</b>	<b>31,319</b>	<b>13,275</b>	<b>98,703</b>	<b>143,297</b>	<b>33,916</b>	<b>14,086</b>	<b>116,520</b>	<b>164,522</b>

The total gross debt is made up of 28,138 cases of which 11,465 have an outstanding order balance. Of the 11,465 cases: 1,079 (9.4%) are between 0 – 1 years old; 884 (7.7%) are between 1 – 2 years old; 2,124 (18.5%) are between 2 – 5 years old, and; 7,378 (64.4%) are over 5 years old.

## 5. Payables

	2020-21		Total £000
	On which cash received	On which cash receivable	
	£000	£000	
Confiscation orders (Home Office)	23,499	143,297	166,796
Prosecutors' costs (incl. CPS Costs)	875	67,987	68,862
Compensation	11,431	30,524	41,955
Victim surcharge	7,743	22,870	30,613
Fines and fixed penalty receipts payable to MoJ	67,052	-	67,052
Other	5,155	-	5,155
<b>Total</b>	<b>115,755</b>	<b>264,678</b>	<b>380,433</b>

	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	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
<b>Total</b>	<b>69,822</b>	<b>309,018</b>	<b>378,840</b>

## 6. Balance on the Consolidated Fund account

### 6.1. Net Revenue for the consolidated fund

	2020-21 £000	2019-20 £000
<b>New Impositions: -</b>		
Court fines	217,479	316,219
Miscellaneous receipts	5,031	4,759
Criminal court charge (remissions)	(214)	(800)
Fixed penalty notices	95,948	109,246
<b>Impairment charge (increases)/decreases: -</b>		
Court fines	(80,309)	(66,946)
Criminal court charge	1,313	1,614
<b>(Written off): -</b>		
Court fines	(8,797)	(9,458)
Criminal court charge	(150)	(217)
Retained by MoJ	(285,885)	(365,299)
<b>Net revenue for the consolidated fund</b>	<b>(55,584)</b>	<b>(10,882)</b>

### 6.2. Balance on the consolidated fund

	2020-21 £000	2019-20 £000
Balance on the Consolidated Fund at 1 April	327,962	338,844
Net Revenue for the Consolidated Fund	(55,584)	(10,882)
Less: amount paid to the Consolidated Fund	-	-
<b>Balance on the Consolidated Fund at 31 March</b>	<b>272,378</b>	<b>327,962</b>

The balance on the Consolidated Fund comprises:

	2020-21		Total £000
	On which cash received £000	On which cash receivable £000	
Balance on Consolidated Fund Account as at 1 April	-	327,962	327,962
Balance on Consolidated Fund Account as at 31 March	-	272,378	272,378

	2019-20		Total £000
	On which cash received £000	On which cash receivable £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

## 7. Notes to the Statement of Cash Flows

	Notes	2020-21 £000	2019-20 £000
Net cash flow from operating activities is derived as follows:			
Net revenue for the Consolidated Fund	6.1	(55,584)	(10,882)
Adjustment for non-cash items:			
Increase / (decrease) in impairment provision	2	239,611	241,547
(Increase) / decrease in gross receivables		(139,687)	(230,300)
Increase / (decrease) in payables		1,593	(60,424)
<b>Net cash inflow / (outflow) from operating activities</b>		<b>45,933</b>	<b>(60,059)</b>

## 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% (2019-20: 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 reduction in collections due to both reduced levels of new impositions and also the financial position of defendants and their ability to pay. Given the complex nature of confiscation orders, including high levels of hidden assets and assets being overseas, the impact on the collection rates is inherently more uncertain, as a result the sensitivity analysis for these orders is assessed using a larger percentage change in the assumptions.

The impact of the following reasonable possible alternatives to this assumption is reflected in the table below:

Assumption	Change in assumption	2020-21 £m	2019-20 £m
Projected cash collections – confiscation orders	+25%	12.0	14.0
Projected cash collections – all other impositions	+10%	36.4	44.2
Projected cash collections – confiscation orders	+10%	4.8	5.6
Projected cash collections – all other impositions	+5%	18.2	22.1
Projected cash collections – confiscation orders	-25%	(12.0)	(14.0)
Projected cash collections – all other impositions	-10%	(36.4)	(44.2)
Projected cash collections – confiscation orders	-10%	(4.8)	(5.6)
Projected cash collections – all other impositions	-5%	(18.2)	(22.1)

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:

	2020-21 £000	2019-20 £000
Cash at bank	115,755	69,822
Receivables	537,056	636,980
	<b>652,811</b>	<b>706,802</b>

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 £3,066 million (2019-20: £2,827 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 (HC405) details the level of expenditure incurred in 2020-21.

## 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 was one non adjusting event. In January 2021 the High Court ruled that in relation to deductions of benefits from Universal Credit, the Department for Work and Pensions (DWP) should not automatically deduct from benefits the maximum of 25 percent but should apply discretion to the level of deductions made. As at the end of March 2021 DWP were still considering how to implement the High Court ruling and thus the impact on future collections is still being determined and a reasonable estimate of the potential effect cannot be made.













# HM Courts & Tribunals Service

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