



HER MAJESTY'S
COURTS SERVICE
hmcs

Her Majesty's Courts Service

Annual Report and Accounts 2010-11



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Her Majesty's Courts Service was an Executive Agency of the Ministry of Justice.

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Introduction

We are pleased to introduce the Annual Report for 2010-11 for Her Majesty's Courts Service (HMCS), which until 31 March 2011 was an Executive Agency within the Ministry of Justice.

On 1 April 2011 HMCS was integrated with the Tribunals Service to form Her Majesty's Courts and Tribunals Service.

During the period covered by this report, staff in the courts have delivered significant benefits for users by working together with tribunals colleagues to build the new agency. The key to this work is that there are many similarities between the courts and tribunals, not just in terms of throughput of cases, but also in supporting the judiciary and in providing high standards of service. The invaluable work of HMCS in the years since it first unified the administration of all courts other than the Supreme Court provides a solid foundation for the new agency.



A handwritten signature in black ink, appearing to read 'K. Clarke'.

The Rt Hon Kenneth Clarke QC
Lord Chancellor and
Secretary of State for Justice



A handwritten signature in black ink, appearing to read 'Lord Judge'.

The Rt Hon Lord Judge
Lord Chief Justice of
England and Wales

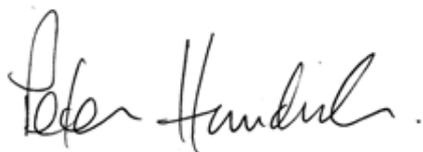
Foreword

This publication deals with the sixth and final annual report for HMCS and demonstrates the progress made over the last twelve months of HMCS operation from 1 April 2010 until 31 March 2011.

This year we made good progress in improving our understanding of the needs of our customers, and in meeting those needs we have continued to promote Lean ways of working to reduce our costs and streamline processes providing even better services for court users. From 1 April 2011, working as a single organisation will enable the courts and tribunals to do even more.

We have worked closely with our colleagues in the Ministry of Justice to take forward our Civil Strategy and to support the work of the Family Justice Review and to improve the efficiency of the criminal justice system. This year we developed, consulted on and began to implement plans to rationalise our Estate. This work will be crucial in delivering modern and efficient services in the future and the skill and speed with which this work has been delivered is testament to the quality of our staff. With our colleagues in the Tribunals Service we have worked to map out the processes for integrating our services and begun the work of developing a new operating model for the new agency.

It has been a challenging year for all our staff and we wish to pay credit to the way staff have continued to deliver high standards of service despite the tight financial climate in which we find ourselves and the uncertainty that comes with the transition to a new agency and new ways of working. We are grateful to the commitment and focus that has been shown by all staff and is reflected in the achievements documented in this report.

A handwritten signature in black ink, appearing to read 'Peter Handcock'.

Peter Handcock CBE
Chief Executive of HMCS

A handwritten signature in black ink, appearing to read 'Duncan Nichol'.

Sir Duncan Nichol CBE
HMCS Board Chairman

1 Overview

About Her Majesty's Courts Service (HMCS)

Aim

All citizens according to their different needs are entitled to timely access to justice, whether as victims of crime, defendants accused of crimes, creditors, consumers in debt, children at risk of harm, or business people involved in commercial disputes.

Objectives

- Promotion of a modern, fair, effective and efficient justice system that is available to all and responsive to the needs of the communities it serves.
- Support of an independent judiciary in the administration of justice.
- Achievement of best value for money.
- Continuous improvement of performance and efficiency across all aspects of the courts' work having regard to the contribution the judiciary can appropriately make.
- Collaboration with a range of justice organisations and agencies, including the legal professions, to improve the service provided for local communities.
- Greater confidence in, and respect for, the system of justice.
- Achievement of excellence as an employer.

During the period of this report, our priorities included the following strategic priorities together with a series of key enabling activities in support of the delivery of our aim and objectives:

Strategic priorities

- Work with the judiciary and the criminal justice agencies to ensure the Criminal Justice System is more efficient, speedy and responsive for the public.
- Ensure the family courts operate more efficiently, quickly, transparently and responsively for all those who use the family courts and in particular vulnerable children.
- Ensure that where cases need to come to the civil courts, they are dealt with as efficiently as possible and that services to users are improved.
- Deliver a cheaper, faster and more proportionate enforcement system that achieves a significantly higher degree of compliance with court orders.

Key enabling activities

- Develop a modernised, fit for purpose court estate that maximises the use of resources.
- Improve the efficiency, service delivery and value for money of HMCS business.
- Develop the skills of leaders throughout our organisation so they are confident in performing their duties and can contribute to the corporate work of transforming HMCS and the wider justice system.
- Develop IT services that support the effective and efficient administration of justice and reduce costs.

HMCS governance

The Board

The Lord Chancellor and the Lord Chief Justice placed the leadership and broad direction of HMCS in the hands of the HMCS Board.

The Board met regularly under the non-executive chairmanship of Sir Duncan Nichol CBE.

Membership of the Board comprised two further non-executive members, three judicial members who collectively represented the Lord Chief Justice and the judiciary, a Ministry of Justice official representing the Lord Chancellor, the Chief Executive and three other executive members of the senior HMCS team.

The Board considered a wide range of matters, and reported on key performance issues at quarterly intervals to the Lord Chancellor and Lord Chief Justice.

Membership of the HMCS Board at 31 March 2011 can be found at Part 3 of this report.

Chief Executive

The Chief Executive was responsible for day to day operations and was the principal advisor to the Board and through it, to Justice Ministers. The Chief Executive met regularly with the Lord Chief Justice and the Senior Presiding Judge on issues such as budgets, the estate and senior appointments. The Chief Executive also met with the team of Executive Directors as required to focus on key performance measures in all jurisdictions, to identify and find practical solutions to critical concerns and to discuss key operational issues.

Ministry of Justice

The Ministry of Justice oversees the administration of the courts. Its work is wide ranging, providing services directly to around nine million people every year across the United Kingdom through courts, tribunals, prisons, the management of offenders and its many delivery partners.

In October 2010, the Government announced that the Ministry of Justice would bring Her Majesty's Courts Service and the Tribunals Service together into a new, single organisation, HM Courts & Tribunals Service which began operation on 1 April 2011.

The Tribunals Service has separately published a report setting out its achievements for 2010-11 available from The Stationery Office Online at www.tsoshop.co.uk.

2 Our Achievements in 2010-11

Our workload

In 2010-11 there were 1.8 million criminal cases completed in the magistrates' courts, and 156 thousand cases dealt with in the Crown Court. In the county courts 1.6 million civil claims were issued and 105 thousand public law and private law family applications were made. A further 36 thousand family applications were made in family proceedings courts.

The Court of Appeal Criminal Division heard four and a half thousand appeals and applications for appeal and the Court of Appeal Civil Division heard four thousand appeals and permissions to appeal. In the High Court, 37 thousand civil claims were issued; a total of 12 thousand cases were issued in the Administrative Court with nearly 10 thousand in London and the remainder in the four regional centres. The Probate Service issued 256 thousand Grants of representation, and the Court of Protection issued 20 thousand orders.

Our performance against Change Priorities

Improved service delivery and value for money

2010-11 was a year in which we began to reap the rewards of our Change programme. We introduced a new system for determining the optimum staffing required to meet demand on our courts and allocate our finances. Our Activity Based Costing model (ABC) provides detailed costing on key activities. This year we used ABC for the first time in determining the regional financial allocation for operating our magistrates' courts and have developed a model for Crown Court administration which will be used by HM Courts & Tribunals Service in determining financial allocations in 2011-12. We also worked with the Ministry of Justice's Forecasting and Modelling Unit to deliver greater transparency and accuracy in forecasting the number of court sitting days that are required to meet demand.

Our Lean programme was designed to ensure the services we provide are efficient and cost effective, and it will be at the heart of how the new agency HM Courts & Tribunals Service will operate. It aims to deliver a fundamental change to our working culture using visual performance management through Team Management Boards and 10 minute daily team meetings engaging all our staff in problem solving. The programme was established in September 2008 and this year we conducted Lean Implementation events in a further 181 courts and offices bringing the total number of courts and offices that have engaged in Lean to 409 with only 78 to go. This year we rolled out a further 15 Standard Operating Procedures (SOPs). Each month we save 66,500 hours of staff time as a result of the innovations developed through the application of Lean.

We have also created three model offices at Sefton, Oxford and Plymouth Magistrates' Courts that court staff from across the country can visit to learn lessons that can be applied in their courts. Combined with regional and national performance hubs, they helped us to focus on improving the service we delivered to our customers.

The majority of our Senior Civil Servants along with a large number of Heads of Operations and Justices' Clerks undertook training in leading a Lean organisation and we have over 100 staff trained as Lean change agents, who are able to support business improvement.

This year we introduced 'Team Conversations' as part of our national strategy to create more opportunities for face to face communication. Team conversations provide a framework for managers to have real, meaningful, conversations with their teams on the big issues facing the organisation. We completed our Leadership Development Programme for all managers at Band C and above. Following on from this we developed a

series of six structured leadership conversations that 117 of our managers have been trained to facilitate. We have begun to roll this out to over three thousand of our Band D staff with direct leadership responsibilities ensuring that the knowledge and skills that our senior managers gained through the Leadership Development Programme is shared throughout the agency.

In October, we rolled out a new talent management framework to all Band B staff and above. The framework provides staff and their manager with a tool to identify learning opportunities to develop skills or progress across the civil service. Our skills survey identified staff whose educational qualifications are currently below the governments skills pledge minimum and they have all been offered opportunities to develop generic or court specific skills in nationally recognised qualifications.

As at March 2011, 81 percent of staff had completed our Equality and Diversity (E&D) awareness raising training. Flowing on from our E&D strategy we held specialist awareness raising workshops for frontline staff covering Mental Health, visual impairments and Disability.

The efficient management of the court estate is crucial to providing cost effective court services. In June, we launched consultations on the provision of court services in England and Wales and the merger of local justice areas. We received over 2,500 consultation responses from the public and our stakeholders, and in December 2010 Ministers announced the closure of 93 magistrates' courts, 49 county courts and the merger of a number of local justice areas.

The implementation of the programme has started, with the first courts closing in April 2011. Work will be transferred to nearby courts which will increase utilisation rates reducing the times when our court rooms are not being used. The aim is to increase utilisation in the magistrates' courts from 64 percent to around 75 percent and for the courtrooms in the county courts to sit nearer to 200 days a year rather than the current 180 days. Not only will these closures result in the disposal of underused or outdated courthouses, but HM Courts & Tribunals Service will reinvest £28m over the spending review period to upgrade and modernise facilities in a large number of magistrates and county courts.

During the reporting year we began operating from a new Criminal Justice Centre in South Warwickshire and a new Civil Justice Centre in Bristol, which also became the new home for the Bristol District Probate Registry. As part of a wider strategy to improve the capacity and facilities of the magistrates' courts in London we have taken forward construction of a new Westminster Magistrates' Court on the site of the old Marylebone Magistrates' Court. This new 10-courtroom courthouse is scheduled to become operational in late 2011 and has been part funded through the sale of a number of surplus buildings including the current City of Westminster Magistrates' Court which will close when the new building is complete.

We have continued to make the most of our buildings through our programme of integrations. In the reporting year county courts in Barnsley, Dudley, Mansfield, Stockport, and Wrexham all moved out of their former courthouses and now share premises with their respective magistrates' courts and we completed the conversion of the Amersham Magistrates' court to operate as a Crown Court. The Hinckley fine enforcement office moved into the Hinckley Magistrates' Court and the Leeds District Probate Registry co-located with the Tribunal Service while the Northumberland Centralised Enforcement Team integrated into a Tribunals Service building in North Shields. The Wales Centralised Enforcement Team along with the Tribunals Service moved into the new Port Talbot Magistrates' Court.

Our ongoing commitment to energy-savings saw a reduction in our court estate carbon emissions of 11,000 tonnes. This directly led to energy expenditure savings of over £1.3m adding to the £1.2m reduction achieved in 2009-10. We achieved this through better building management, behavioural change and investment in low carbon technologies and energy efficiency measures, for example in installing photovoltaic cells (solar panels) at Leeds Combined Court. We are proud to report that the Salisbury Law Courts, opened in 2009, won a Building Research Establishment Environmental Assessment Method (BREEAM) Award in 2010 as a top example of sustainable design.

Our strategy for civil courts providing infrastructure for back offices and first access to civil courts via the internet progressed well, completing on 31 December 2010. Previous work to stabilise our XHIBIT system enabled us to focus this year on delivering improvements. In April 2010, we introduced a Disaster Recovery facility followed by major releases adding new forms; long awaited improvements suggested by court staff and others. We updated and reissued our XHIBIT Portal Guidance for the Police and followed this up with a series of road shows for Police National Computer PNC staff.

This year Magistrates' Courts Operating Business System changes, including fixes for over 400 defects in the Libra system, improved the systems stability reducing system downtime and improving performance. These changes have supported wider efficiency gains in the magistrates' courts and will enable future business changes. New links to the system have been set up with prosecuting agencies such as Transport for London, British Transport Police and Mersey Travel with remote access being provided to Youth Offending Teams. These links provide criminal justice organisations with more timely and accessible court information and eliminate the need for re-entry of data by our staff and that of our criminal justice partners.

We began the year with our Richard 7 solution, automating the transfer of magistrates' court results to the PNC operating in all courts and subsequently added significant functional enhancements resulting in a 6.5 percentage point improvement in the number of cases that are automated.

Transforming criminal justice

In the Crown Court we supported the Senior Presiding Judge's schemes to ensure that guilty pleas are made at the earliest opportunity and to improve the business of the Crown Court through the introduction of a more robust case management approach.

In June, we completed the national roll-out of the Crown Court Means Testing (CCMT) of legal aid. Now all Crown Court defendants who wish to apply for legal aid are asked to make a contribution to that cost where they have the means to do so.

This was our first full year with automatic transfers to the PNC of information regarding the outcome of magistrates' courts hearings. This has significantly increased the proportion of cases that are input on the PNC within 10 calendar days. In March 2011 91.4 percent of all results were on the PNC (against a national target of 75 percent).

This year we have introduced Lean SOPs in the Crown Court and magistrates' courts. These SOPs are delivering consistency in the way we undertake our work, ensuring that we operate in the most effective way, driving out wasteful activities whilst delivering the required service.

To support our previous joint work with the Youth Justice Board (YJB) in issuing Making it Count in Court guidance we published in November 2010 a Making it Count in Court toolkit that is available via the YJB website. In developing this toolkit we are helping local

areas review and improve the effectiveness of their arrangements for dealing with young people in the criminal court.

In September 2010, we published an evaluation of our pilot Mental Health Courts while an evaluation of our Dedicated Drugs Court pilots was published in January 2011. These successful pilots operated in a number of magistrates' courts in England and Wales and based on the evidence they provide, we are now developing options for how problem solving principles might be applied more widely in the courts to tackle the causes of reoffending.

Efficient, transparent and responsive family courts

On 20 January 2010, the Government announced a Family Justice Review, and in July 2010 we sponsored our second family justice conference providing detailed input to that review. In November 2010, we held a further conference hosted by the Review secretariat seeking views on proposals then under consideration. In March 2011, the Review published an interim report.

Through the deployment of Lean we have worked with our staff, the judiciary and agencies connected to family work to remove wasteful activities. We have begun to develop a range of SOPs that will be rolled out to the family courts in the coming year.

This year in conjunction with the judiciary, we have implemented new initiatives from the Family Resources and Delivery Group that have continued to improve the current family justice system. New practice directions issued by the President of the Family Division following on from the revised Private Law Programme have enabled us to reduce our waiting times for first hearings. They have also enabled us to improve the processes of issuing and listing applications.

We have delivered on our commitment to improve communications with partner agencies in family justice and in particular our working relationship with the Children and Family Court Advisory and Support Service (CAFCASS). Our work with CAFCASS through the Family Resources and Delivery Group has helped build up our relationships at regional and area level. Joint HMCS/ CAFCASS lean events have led to speeding up processes for referring new case information to CAFCASS and CAFCASS Cymru so that police checks are more timely and first hearings are more effective.

This year we allocated funding for an extra 4,000 sitting days for Public Law work in order to tackle the increasing workload and reduce delay. We completed the setting up of 42 Local Performance Improvement Groups in England through which key stakeholders investigate performance issues in Public Law cases and implement changes to reduce delay. We provided the secretariat for each of these groups while we additionally contributed to the strategic overview of care proceedings through our membership of the National Performance Partnership.

We have continued to support efforts to increase the proportion of family disputes that are resolved through mediation. In November, the Legal Services Commission streamlined the circumstances in which it exempted applicants for legal aid from Family Mediation Information and Assessment (FMIA) sessions. This year we worked with the Ministry of Justice and the judiciary to develop the new Pre-Application Protocol for FMIA's that was announced on 23 February 2011. In preparation for its implementation, our staff have been trained to issue information to those involved in family proceedings, whether publicly funded or not, to raise awareness about mediation as an alternative means of resolving disputes.

This year we have worked with the judiciary and other agencies connected to family work, to identify and remove wasteful activities from our processes. Lean Model Family Courts have been established at Cardiff, Liverpool and the Principal Registry of the Family

Division (PRFD). These courts are developing SOPs on a wide range of family tasks that will soon be shared with all of our family courts.

The President of the Court of Protection's working group reviewed the Court of Protection Rules during 2010-11 and following on from this we introduced new forms for applying for a service and providing notifications. The forms are a fifth of the length of the previous forms making them simpler and less time consuming to complete.

Improved civil courts

This year we conducted a pilot project in Coventry as well as other initiatives in the South East Region to identify the benefits of centralising telephone contact with the county courts. The pilot has so far demonstrated that a significant percentage of issues can be resolved in that first contact and without reference to the courts. Early data has also enabled us to understand better the most common queries and for the first time to estimate the number of customer calls received by county courts. The work of the pilot will continue in order to provide more data over a longer period but early signs are that centralisation results in customer needs being met more effectively and efficiently and it will enable us to identify what we can do to reduce unnecessary calls.

Between May and September 2010 we moved the administration of the early stages of debt claims out of 102 of our county courts into our back office business centre operations allowing court based staff to focus on case management and judicial support for disputed claims. Streamlined business processes developed through Lean techniques, reduced management overhead and other economies of scale have seen this work processed at significantly lower cost and in the coming year, the budgets for the relevant regions were reduced by a total £1.73m to reflect this.

This year we completed the installation of card payment terminals in all county courts, enabling county court users to pay fees and debts by credit and debit cards in person. The terminals can also be used by staff to facilitate payments made over the telephone. Additionally we have issued 'AllPay' cards to people that need to make payments under administration orders so that cash payments can be made at locations such as newsagents and post offices. This has reduced the number of payments made at court either in person or by post.

Our new Money Claims Online service went live at the end of May 2010, offering users better performance and security. The upgraded version is fully Payment Card Industry (PCI) compliant and claimants are now able to issue more than 50 claims at one time.

In April 2010, we surveyed over 400 regular users of the Northampton County Court Bulk Centre and the results showed that 85 percent were either very or fairly satisfied overall with the service they receive.

This year we have worked to maximise the efficiency of our Small Claims Mediation Service by increasing our mediators productivity and increasing the numbers of judicial referrals. In April we set each of our mediators a target of 550 mediations for the year at an average of just over 45 per month. They achieved 44.25 and this marks a step change in performance from the previous year where our mediators averaged 35.3 mediations per month.

This year there was a 4.4 percent increase in completed mediations from 10,174 to 10,622 despite a fall of 15 percent in the number of referrals commensurate with a fall in the overall number of disputes. However, the number of mediations that resulted in a settlement fell slightly from 7,329 to 7,293 (0.49 percent).

Honours and awards

In the Queen's Birthday Honours List announced on 12 June 2010 Thirza Mullins, Deputy Justices' Clerk at Camberwell Green Magistrates' Court, London was made an Officer in the Order of the British Empire (OBE) while Stephen Burrows, Head of Security at the Royal Courts of Justice was made a Member in the Order of the British Empire (MBE). Norman Draper, Justices' Clerk for Merseyside was made an OBE in the New Year 2011 Honours List announced on 31 December 2010.

149 nominations were submitted in this year's HMCS National Awards scheme 2010. The finalists and their nominators all attended the ceremony at the Royal Courts of Justice on 30 September.

Our performance against Key Performance Indicators

Performance Indicators		Performance			
Crown Court		Target	2010-11	2009-10	2008-09
KPI 1	The percentage of cases in the Crown Court commenced within the target period	78%	77.0 ¹ %	78.4%	79.7%
	To maintain the 2009-10 Ineffective Trial Rate	13%	13.5%	13.0%	12.1%
	The proportion of days jurors overall sit on trials during their period of service ²	70%	68.3%	67.2%	62.8%
	The average time of waiting for witnesses before being called to court ³	2hrs 30 mins	2:01 (Jun) 2:07 (Nov)	2:11 (Jun) 2:03 (Nov)	2:16 (Jun) 2:06 (Nov)
	Proportion of witnesses due to be called to court called within 2 hours ³	60%	61.2% (Jun) 56.5% (Nov)	57.6% (Jun) 60.4% (Nov)	59.4% (Jun) 59.8% (Nov)
Magistrates' courts					
KPI 2	To reduce the average time from charge to disposal for adult charged cases to 6 weeks or less	<6 weeks	6.6 weeks	6.9 weeks	6.8 weeks
	The average number of hearings held for each magistrates' court case	2.25	2.17	2.26	2.33
	To maintain the 2009-10 Ineffective Trial Rate	18.6%	17.5%	18.6%	18.6%
KPI 3	To produce and send to police magistrates' court results:				
	95% in 3 working days		86.5%	83.9%	75.6%
	100% in 6 working days		97.1%	95.7%	88.8%
	The average time of waiting for witnesses before being called to court ³	1hr 30 mins	1:22 (Jun) 1:24 (Nov)	1:20 (Jun) 1:25 (Nov)	1:35 (Jun) 1:23 (Nov)
	Proportion of witnesses due to be called to court called ³ :				
	within 1 hour	60%	51.8% (Jun) 50.0% (Nov)	53.2% (Jun) 49.2% (Nov)	54.1% (Jun) 51.9% (Nov)
	within 2 hours	80%	80.9% (Jun) 79.9% (Nov)	81.2% (Jun) 79.8% (Nov)	81.7% (Jun) 79.9% (Nov)
Enforcing the Orders of the Court					
KPI 4	Payment rate for financial penalties ⁴	85%	93.2 %	85.8%	84.7%
KPI 5	Percentage of all Community Penalties be resolved within 25 days of the relevant failure to comply	60%	69.3%	67.4%	61.8%
Civil courts					
KPI 6	Increase the proportion of defended small claims that are completed otherwise than by a hearing (settlement)	65%	71.6%	74%	72%
	The proportion of defended fast and multi-track cases that are completed otherwise than by a hearing	87%	84.7%	87%	87%
KPI 7	Increase the proportion of defended small claims that are completed (from receipt to final hearing) within 30 weeks	70%	71.6%	68%	65%

Performance Indicators		Performance			
Family courts	Target	2010-11	2009-10	2008-09	
KPI 8	Percentage of care and supervision cases that achieve a final outcome for the child ¹ :				
	within 30 weeks	26%	17.3%	N/A ⁶	
	within 50 weeks	66%	49.6%	N/A ⁶	
	within 80 weeks	92%	84.9%		
Delivering for our customers					
KPI 9	The 'very satisfied' element of the HMCS court user survey to be maintained at or above the year 2 (2007-08) survey baseline of 41%	>41%	N/A ⁷	40%	
	Complaints responded to by the Customer Service Unit within 15 working days	90%	90.7%	92.5%	
	Complaints responded to by courts within 10 working days	90%	88.8%	91.7%	
	Complaints responded to by Area offices within 10 working days ⁹	90%	88.6%	91.8%	
20,839 complaints were recorded in 2010-11 with 89% completed within target					

¹ 76.5% of defendants' cases sent for trial were commenced within 26 weeks of sending to the Crown Court by magistrates' courts; 70.7% of defendants' committal for trial cases were commenced within 16 weeks of committal by magistrates' courts; 86.9% of appeals were commenced within 14 weeks of the appeal being lodged and 92.9% of committals for sentence were commenced within 10 weeks of committal.

² Crown Court trials are complex. Some do not go ahead as planned on the day because parties are not ready for trial, the defendant pleads guilty or another trial over-runs and for these reasons, it is not possible for all jurors to sit on trials on every day of their jury service. Target introduced in 2009-10.

³ Performance against witness waiting time targets are measured via biannual surveys in June and November.

⁴ The payment rate is calculated by dividing the amount of fines collected in a year by the amount of fines imposed. The monies collected may relate to fines and other financial penalties imposed in that or earlier years.

⁵ This is a cross-agency target to reduce unnecessary delay in care proceedings introduced in 2010-11, with each agency having their own element to deliver.

⁶ New targets and published data introduced in 2010-11.

⁷ With proposals for a new combined courts and tribunals agency the programme of annual Customer Satisfaction Surveys was discontinued for 2010-11. On 14 October 2010 the Parliamentary Under-Secretary of State for Justice tabled a Written Ministerial Statement (WMS) in parliament which included the following: 'Commissioning new surveys for 2010-11 would not represent good value for money as the results would be of limited value and would not be available until after the creation of the new agency. I have, therefore, decided that the survey used to report against this performance indicator should not go ahead. HMCS remains committed to providing good customer service to all court users across England and Wales. User satisfaction remains strong with 82% of court users satisfied overall, with 40% of those being 'very satisfied'. The new integrated courts and tribunals service will continue to deliver improvements in the services provided for courts and tribunal users.'

⁸ Target introduced in 2009-10.

⁹ In late 2009 the HMCS complaint handling procedure was reviewed to make it leaner without compromising on the quality of decision making. As a result in January 2011, HMCS reduced its complaint handling tiers from three to two, with the initial decision being made at court level and if a complainant was dissatisfied they could appeal to a central team. Those court users (including Equality Groups) favoured a two tiered complaint handling process as this represented the least complicated and protracted system and by speeding up the decision making process it helps to reduce the stress on complainants.

3 Annual Accounts for 2010-11

Chief Executive's report

Overview

HMCS was an Executive Agency of the Ministry of Justice, responsible for managing the administration of the courts across England and Wales, with the exception of the Supreme Court, under a partnership agreement in 2008 between the Lord Chancellor and the Lord Chief Justice.

It was created by the amalgamation of the Magistrates' Courts Service and the Court Service as a result of the Unified Courts Administration Programme. It came into being on 1 April 2005, bringing together the Magistrates' Courts Service and the Courts Service into a single organisation.

The Agency was structured into six geographical regions and Wales, with the Chief Executive, supported by the executive team, accountable for the day-to-day operations and delivery of services through the courts.

The Accounting Officer for the Ministry of Justice designated the HMCS Chief Executive as the Agency's Accounting Officer.

The Lord Chancellor and Lord Chief Justice placed the leadership and broad direction of the Agency with the HMCS Board. Further information on the governance structure of the Agency can be found in the Annual Report section of this document.

On 1 April 2011, HMCS merged with the Tribunals Service to form a new Executive Agency, HM Courts & Tribunals Service. The new Agency is a partnership between the Lord Chancellor, the Lord Chief Justice and the Senior President of Tribunals.

The Chief Executive's report acts as management's commentary, as required by the 2010-11 Government Financial Reporting Manual (FRM).

HMCS Board

During the course of 2010-11, and up to 31 March 2011, the HMCS Board was responsible for determining strategy and for ensuring its achievement through effective planning. The members of the HMCS Board who served during the year were as follows:

Sir Duncan Nichol CBE	Chairman (to 31 March 2011)
Chris Mayer CBE	Chief Executive (to 30 September 2010)
Peter Handcock CBE	Access to Justice Director-General, Ministry of Justice Representative (to 30 September 2010); Chief Executive (from 1 October 2010 to 31 March 2011)
Owen Mapley	Finance Director (to 30 November 2010)
Steve Gillespie	Finance Director (from 1 December 2010 to 31 March 2011)
Alan Eccles	Regional Director (Board Member to 31 March 2011)
Clare Pillman	Regional Director (Board Member from 1 June 2010 to 7 March 2011)
Anita Bharucha	Programme Director, Courts and Tribunals Integration Programme, Ministry of Justice Representative (from 1 October 2010 to 4 February 2011)

Jonathan Booth	Director, Criminal Justice Reform, Ministry of Justice Representative (from 5 February to 31 March 2011)
Guy Beringer QC	Non-Executive Director (to 31 March 2011)
Kenneth Ludlam	Non-Executive Director (to 31 March 2011)
Lord Justice Goldring	Judicial Member (to 31 March 2011)
His Honour Judge William Kennedy	Judicial Member (to 31 March 2011)
District Judge Michael Walker CBE	Judicial Member (to 31 March 2011)

The HMCS Board met nine times during the year. Details of the remuneration of members of the HMCS Board who served during 2010-11 can be found in the Remuneration report.

No Board member had any other directorship or significant interest which conflicted with their responsibilities as a member of the HMCS Board. So far as the Accounting Officer is aware, there is no relevant audit information of which the auditors are unaware. The Accounting Officer has taken all reasonable steps to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

As a result of the merger between HMCS and the Tribunals Service, a new Board was convened on 1 April 2011 and replaced the previously separate HMCS and Tribunals Service Boards.

HM Courts & Tribunals Service Board

With effect from 1 April 2011, the HM Courts & Tribunals Service Board is responsible for determining strategy for the new Agency and for ensuring its achievement through effective planning. The members of the Board are as follows:

Robert Ayling	Chairman
Peter Handcock CBE	Chief Executive
Steve Gillespie	Finance and Resources Director
Shaun McNally CBE	Director of Crime
Kevin Sadler	Director of Civil, Family and Tribunals
Francis Dobbyn	Non-Executive Director
Alison White	Non-Executive Director
Lord Justice Carnwath CVO	Judicial Member
Lord Justice Goldring	Judicial Member
District Judge Michael Walker CBE	Judicial Member

HMCS Audit Committee

The HMCS Audit Committee was an advisory Committee that had no executive powers. The Committee continued to support the Accounting Officer in the discharge of his responsibilities for governance, risk management, control and assurance – up to and including the date of the Accounting Officer's approval of this report. Committee Members received 1/12th of their annual Committee salary for performing this function.

The HMCS Audit Committee met five times during the year and the external auditors attended all meetings as well as the Head of Internal Audit from the Ministry of Justice who is responsible for providing internal audit services to HMCS. Members of the Audit Committee were as follows:

Kenneth Ludlam	Non-Executive Board Member and Chairman
Guy Beringer QC	Non-Executive Board Member
John McGorrigan OBE, JP	Non-Executive Member
Ray Palmer	Non-Executive Member
Norman Kirby	Non-Executive Member
District Judge Michael Walker CBE	Judicial Board Member

Details of the remuneration of Board members who sat on the HMCS Audit Committee can be found in the Remuneration report, in line with the disclosure requirements of the Financial Reporting Manual.

No Audit Committee member had any other directorship or significant interest which conflicted with their responsibilities as a member of the HMCS Audit Committee.

Subsequent to the signing date of this report, a new HM Courts & Tribunals Service Audit Committee will be formed to support the HM Courts & Tribunals Service Accounting Officer in the discharge of his responsibilities on an ongoing basis.

Auditor

The Accounts, comprising the Statement of Comprehensive Net Expenditure, Statement of Financial Position, Statement of Changes in Taxpayers' Equity and Statement of Cash Flow are audited by the Comptroller and Auditor General of the National Audit Office. The auditor's remuneration for the audit of the Accounts of HMCS for 2010-11 was £0.4m (2009-10: £0.4m). The auditor's remuneration for non-audit work during the year was £nil (2009-10: £0.1m).

Pensions

Details of how pension costs and liabilities are treated can be found in note 1 to the Accounts, and further information relating to pensions is included in note 7.1 to the Accounts and in the Remuneration report.

Payments

HMCS's policy was to pay suppliers in accordance with the Prime Ministerial commitment of May 2010 that suppliers should be paid within 5 days of receipt of a valid invoice at the correct billing address.

For 2010-11, 82% of invoices were paid within these terms against the cross-government target of 80% (2009-10: 95% within 10 days of receipt against the then target of 90%).

Capital structure

HMCS's net assets were represented entirely by taxpayers' equity, consisting of the General Fund and the Revaluation Reserves as detailed in the Statement of Changes in Taxpayers' Equity.

Principal risks and uncertainties of the business

HMCS faced challenges and risks to the achievement of its business objectives. These centred on ensuring that HMCS was able to maintain effective delivery of its key objectives during a period of significant organisational change. These changes included moves to reduce operating costs in line with funding restrictions, decisions to rationalise the courts estate through announcing the closure of a number of underutilised courts (further information on this is contained in note 9.4 to the Accounts) and moves to reduce

employee numbers through managing natural wastage and offering staff the option to apply for Voluntary Early Departure (on which further information is contained within note 7.1 to the Accounts). A detailed risk management strategy was in place at all levels of the organisation to ensure that organisational risks were effectively managed.

The new HM Courts & Tribunals Service Agency faces similar risks and uncertainties going forward, particularly around the organisational change required to integrate the courts and tribunals operations.

Resources and stakeholders

The governance, financing and operations of HMCS were agreed in the Framework Document which came into force 1 April 2008. This set out the terms of an agreement reached by the Lord Chancellor and the Lord Chief Justice on a partnership between them, the principles of which governed relations between HMCS on the one hand and the Lord Chancellor and the judiciary on the other.

HMCS was funded by the Ministry of Justice with delegations of £738.7m (2009-10: £744.0m) which were voted on by Parliament under the relevant Appropriation Act. In addition to this funding, HMCS earned fee revenue for services provided to court users and is entitled to retain an element of fine receipts collected. Further information on these revenues can be found in note 6 to the Accounts.

These Accounts have been prepared on the going concern basis as HMCS's activities are continuing under the new HM Courts & Tribunals Service Agency from 1 April 2011.

The Ministry of Justice provided HMCS with essential services to enable HMCS to conduct its business. These included human resources, information technology, corporate finance, legal and procurement services. The corporate finance shared service included managing the finance and human resources outsourced service provider Liberata, with whom the Ministry of Justice holds the contract. These relationships were governed by memoranda of understanding. HMCS provided administrative services for the Legal Services Commission for the processing of means testing and legal aid. This was governed by a memorandum of understanding with service level agreement targets.

HMCS was unable to provide data on average sickness absence levels among employees for 2010-11.

Operating and financial review

Overall financial performance

HMCS had net costs of £1,164.7m for 2010-11 (2009-10: £1,088.4m).

Total expenditure, including non-cash costs, was £1,772.6m (2009-10: £1,700.8m) of which expenditure for civil business was £612.5m (2009-10: £619.0m).

Total costs (excluding non-cash costs) were £1,443.6m for the year (2009-10: £1,510.2m), a decrease of £66.6m during 2010-11 as a result of an Agency-wide cost saving programme in response to the Government's savings directives.

Of the total costs (excluding non-cash costs) staff and judiciary costs totalled £844.8m for the year (2009-10: £846.1m), other operating costs totalled £456.0m (2009-10: £506.5m) and depreciation was £101.2m (2009-10: £115.3m). Further information is contained on these three major cost categories below.

Staff and judiciary costs

Staff and judiciary costs included £15.3m (2009-10: £nil) of early departure costs for staff who opted to volunteer for an early exit under a Ministry of Justice Voluntary Early Departure (VED) scheme that was offered to selected HMCS employees during the year.

The early departure costs were paid in accordance with the provisions of the Civil Service Compensation Scheme introduced by the Government in December 2010. The early departure costs included payments in lieu of notice and compensation in lieu of notice where relevant. In line with the terms of the Civil Service Compensation Scheme, no ex-gratia amounts were paid to individuals who exited under the VED scheme.

Taking account of the early departure costs, wages and salaries for HMCS staff decreased by £16.6m for the year, a saving that was achieved through natural turnover. Average full-time equivalent staff numbers decreased by 853 for 2010-11 (a 4.7% reduction) compared to 2009-10. There were no compulsory redundancies during the year.

Other operating costs (excluding non-cash costs)

Other operating costs totalled £456.0m (2009-10: £506.5m). Of this, £206.7m (2009-10: £232.7m) was spent on occupancy and maintenance of the court estate. HMCS was able to achieve a saving of £26.0m on this expenditure category through restricting spend on non-essential works. A total of £42.8m (2009-10: £42.1m) was spent on juror costs, an expenditure category that has remained consistent with the prior year. Spend on communications and office supplies was £31.4m (2009-10: £35.4m), a saving of £4.0m that was realised through a targeted drive to reduce administration costs. A total of £38.6m (2009-10: £54.8m) was spent on other staff and other judicial costs which included travel & subsistence, a reduction that was achieved through a push to minimise travel.

Depreciation

Depreciation for the year was £101.2m (2009-10: £115.3m). The reduction was due to the decrease in the value of the overall court estate during 2009-10 which has in turn reduced the depreciation expense for 2010-11.

Non-cash costs

Non-cash costs totalled £329.0m for the year (2009-10: £190.6m), of which £178.0m related to an increase in the value of provisions (2009-10: £155.6m – decrease), £127.8m related to intra-departmental recharges (2009-10: £144.3m) and £63.7m (2009-10: £nil) was due to an impairment of property and equipment. These costs were off-set by a £51.6m increase (2009-10: £192.0m – decrease) in the fair value of property and equipment.

There were three main causes of the movement in non-cash costs for 2010-11 when compared to 2009-10. The main reason is due to an increase in the provisions for pensions transfer deficit of £182.2m (2009-10 saw a decrease in the provisions of £183.6m). Detailed information on these provisions is contained within note 17.1 to the Accounts.

The second reason is due to the impairment of £59.4m recorded against those underutilised properties marked for closure during the year (explained below in further detail). These two cost increases were offset by an increase in the fair value of property and equipment for the year of £51.6m (compared to the decrease in 2009-10 of £192.0m). This was driven by a recovery in the commercial property sector which underpins the values of much of the court estate.

Income

Total operating income for the year was £607.9m (2009-10: £612.4m). This mainly consisted of fee income relating to services provided to users of the civil courts of £463.9m (2009-10: £479.2m). The decrease in civil fees for the year of £15.3m was mainly due to a reduction in volumes of new money claims as a result of the economic downturn causing court users to consider other avenues for chasing debts.

All fee charging services must have a financial objective agreed with HM Treasury; details for the actual and target fee recoveries are shown in note 4 to the Accounts.

Fine income, where HMCS was entitled to retain an element of fine receipts, totalled £103.6m for the year (2009-10: £94.8m). The increase for the year was due to a concerted effort to improve debt enforcement activities. Further information in relation to fine revenue can be found in note 1 to the Accounts, on page 40, and note 6 to the Accounts.

Capital

HMCS invested £139.8m in tangible capital assets during the year (2009-10: £127.9m). Of this amount, £58.3m was spent on court enhancements, £13.8m was spent on sustainable development improvements and £4.4m was spent on Disability Discrimination Act requirements. Major capital projects for the year included £20.1m spent on the City of Westminster Magistrates Court project, £11.8m on the Chelmsford and Colchester Magistrates Courts and £7.1m on Woolwich Crown Court.

Ministers announced plans to close 163 underutilised courts as part of a move to rationalise the use of the courts estate. Further information on this can be found in note 9.4 to the Accounts. During the year HMCS progressed eight of these properties towards sale.

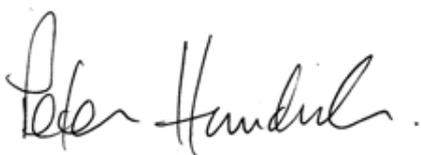
Investment in intangible capital assets totalled £8.9m (2009-10: £22.3m).

Where required, 2009-10 comparative figures have been re-stated to reflect changes in accounting policies, as set out on pages 48-49.

Creation of HM Courts & Tribunals Service

Effective 1 April 2011, HMCS merged with the Tribunals Service to create a new Agency, HM Courts & Tribunals Service.

The new Agency is a partnership between the Lord Chancellor, the Lord Chief Justice and the Senior President of Tribunals and is responsible for the administration of the criminal, civil and family courts and tribunals in England and Wales, and non-devolved tribunals in Scotland and Northern Ireland.



Peter Handcock CBE
Chief Executive and Accounting Officer

27 June 2011

Statement of Accounting Officer's responsibilities

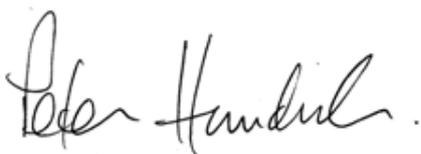
Under section 7(2) of the Government Resources and Accounts Act 2000, HM Treasury has directed Her Majesty's Courts Service (HMCS) to prepare for each financial year a statement of accounts (the Accounts) in the form and on the basis set out in the Accounts Direction issued by HM Treasury on 22 December 2010. The Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Agency and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

The Chief Accounting Officer for the Ministry of Justice has designated the HMCS Chief Executive as HMCS's Accounting Officer.

In preparing HMCS's Accounts, 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;
- State whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed and disclose and explain any material departures in the Accounts;
- Prepare the Accounts on a going concern basis; and
- Ensure that, so far as the Accounting Officer is aware, there is no relevant audit information of which the entity's auditors are unaware. The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that HMCS's auditors are aware of that information.

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



Peter Handcock CBE
Chief Executive and Accounting Officer

27 June 2011

HMCS Statement on Internal Control 2010-11

Scope of responsibility

As HMCS Accounting Officer, I was responsible for maintaining a sound system of internal control that supported the achievement of HMCS policies, aims and objectives, whilst safeguarding the public funds and assets for which I was personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

I was appointed HMCS Chief Executive and Accounting Officer with effect from 1 October 2010 following the departure of Chris Mayer CBE as Chief Executive and Accounting Officer on 30 September 2010. Having completed a detailed, formal handover process prior to taking up post on 1 October 2010, I am confident that all assurances detailed within this statement were in place prior to this date.

HMCS merged with the Tribunals Service to form a new Agency, HM Courts & Tribunals Service, effective 1 April 2011, for which I am Chief Executive and Accounting Officer. HMCS therefore ceased to exist as an independent Agency after 31 March 2011 however control arrangements set out in this statement have been maintained during the merger.

As HMCS Chief Executive I was responsible to the Lord Chancellor and Secretary of State for Justice and also to the Lord Chief Justice for the running, management, performance and development of HMCS. As Accounting Officer for HMCS, I was accountable to the Ministry of Justice Permanent Secretary.

I was supported by the HMCS Board, which comprised an independent Chairman, non-executive and executive members, and members of the judiciary. The HMCS Board was responsible for the leadership and broad direction of the Agency. I was responsible for the day-to-day operation of HMCS and the leadership of its staff. I worked under the general direction of the Board and in accordance with the Agency's framework document. I regularly interacted with both the Permanent Secretary and the Lord Chancellor and Secretary of State for Justice to ensure that Ministerial priorities were fully taken into account. I also had a close working relationship with the Senior Presiding Judge acting on behalf of the Lord Chief Justice and with senior colleagues in the Ministry of Justice and its delivery bodies.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental and Agency policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place for the year ended 31 March 2011 and up to the date of approval of the Annual Report and Accounts, in accordance with Treasury guidance.

Capacity to handle risk

I acknowledge my overall responsibility for the effective management of risk throughout HMCS. I can confirm that leadership was given to the risk management process through HMCS Directors and that staff were trained or equipped to manage risk in a way appropriate to their authority and duties. I, as Chief Executive, led on the management of risk within HMCS and have been supported during 2010-11 by a management structure that included:

- The HMCS Board which had overall responsibility for corporate governance within HMCS and met regularly throughout the year;
- The HMCS Risk Management Committee, which was chaired by the HMCS Director of Finance and had lead delegated responsibility from the HMCS Directors Board for the management and oversight of strategic risks within the organisation. It met at least bi-monthly to review and consider the corporate risk register and identification of new threats to HMCS's objectives. The Risk Management Committee assigned Director level ownership of each risk as a basis for agreeing appropriate mitigation and control;
- The HMCS Audit Committee, which included independent representation of five non-executive members and one judicial member, whose key responsibility was to support the Accounting Officers in the discharge of their responsibilities for governance, risk management, control and assurance;
- Seven Regional Risk and Audit Committees whose main responsibilities were to support the discharge of the Accounting Officers' and the HMCS Audit Committee's responsibility in the HMCS regions. Following a review of their functions it was decided to disband these committees from November 2010 and transfer responsibility for risk management back to senior operational management in the regions. Arrangements for reporting risks and issues were put in place through a standard internal reporting framework which included the use of regional risk registers that were regularly reviewed by senior regional management and escalated as appropriate to relevant forums, such as the HMCS Audit Committee, for further action;
- The HMCS Information Security Forum which was chaired by the Senior Information Risk Owner and included senior operational, judicial and corporate staff. The forum met quarterly to review and assess the management of information risk within HMCS;
- A network of governance officers within the Agency directorates and regions to co-ordinate the identification and reporting of internal and external risk and control issues and share best practice;
- The HMCS Change Board which met regularly throughout the year to co-ordinate key organisational change initiatives; and
- The HMCS Health and Safety Committee which was chaired by the Director for Performance and Operations (or his representative) and met quarterly to consider health and safety risks and issues faced by the business.

Merger of HMCS and the Tribunals Service

As detailed above, HMCS merged with the Tribunals Service effective 1 April 2011, creating a new Agency, HM Courts & Tribunals Service. The merger activities were undertaken through the Courts and Tribunals Integration Programme (CTIP). The key aims of the programme were to deliver a single administrative structure, the creation of a combined justice system and the agreement of a new Framework Document with the judiciary. The CTIP Board was responsible for managing the risks associated with the merger.

The risk and control framework

A risk and control framework was in place throughout the year to identify, monitor, manage and report the risks or threats to the achievement of the Agency's objectives. Key features in addition to those already identified earlier in this statement included:

- A risk management policy and framework consistent with that in operation throughout the wider Ministry of Justice. The policy set out formal processes for identifying, evaluating, managing and reporting risk. Risks that threatened the achievement of the

Agency's objectives were identified and analysed in terms of impact and likelihood and were reported regularly at Corporate, Directorate, Region and Area levels;

- A risk management assessment framework, directed and controlled by the HMCS Corporate Governance team, which assessed the progression of risk management as a discipline;
- A process that ensured HMCS risks were communicated to the Ministry of Justice as appropriate; and
- The allocation of specific roles including Information Asset Owners and a dedicated Information Risk Manager within HMCS to enable the effective assessment and management of information risk.

As an executive Agency, HMCS had in place an organisation-wide system of internal control to facilitate the management of risk in accordance with HM Treasury requirements. The HMCS system of internal control included established governance structures to support the risk management framework; and a range of internal control processes to provide management with financial and operational assurance, including:

- An effective Internal Audit programme;
- The provision and review of regular management information including regular reviews by management of financial and operational reports indicating performance against forecasts;
- Financial and administrative procedures including delegations of financial authority and segregation of duties on key financial processes;
- Formal approval by the Board of directorate business plans and their regular review against performance by the Directors' Board;
- The HMCS Assurance Programme (HAP) which is a set of processes and tools for operational managers to measure and assess assurance on key processes and controls within their remit;
- Health, safety and security risk and assurance processes which have continued to be robustly enforced and monitored. With significant structural changes occurring throughout the organisation it has not been possible to conduct a continuing programme of security and safety audits across the operational arm of the organisation. However, self assessments against defined risk criteria have been undertaken that indicates control measures are generally in place and most performance requirements are being met. Improvements are required to fire safety reporting arrangements and work is ongoing to continue to improve compliance with relevant guidelines;
- An environment whereby both management and key staff viewed the management of risk as an opportunity to manage proactively the risks to the Agency's objectives;
- A series of fraud risk management policies designed to prevent and detect fraudulent activity;
- A dedicated training programme on information assurance; and
- A process by which LEAN standard operating procedures were reviewed before issuing to the organisation for implementation.

HMCS as an Agency was also reliant on the Ministry of Justice for the maintenance of internal control. The Ministry of Justice provided a number of services to the Agency including Human Resources (HR), Information Technology (IT) and Procurement services. Assurance over the robustness of internal controls for these services was obtained from,

but not limited to statements of assurance from Ministry of Justice shared service providers. In addition Ministry of Justice Directors of HR and Information Technology were members of the HMCS Directors' Board providing regular updates on risks and issues within their respective arenas. The HMCS Director of Finance was a substantive member of the Ministry of Justice wide Procurement Committee which provided executive level oversight of procurement activity across the whole of the Ministry of Justice.

An area within the HMCS framework that was identified for review related to the system in place to reimburse expenses and financial loss to magistrates. It became apparent this year that there were potential weaknesses in the processes and controls in place and a number of discrepancies have been highlighted through the administration of the process. HMCS has already made a number of recommendations operationally to improve control in this area and work is currently ongoing on the development of a simpler and more robust policy to administer the system.

Statement on Internal Control Issues for 2009-10

The SIC for 2009-10 reported six significant control issues. Two of those issues remain as disclosures for the current report and updates have been provided in the final section to this statement. In relation to the other four:

Family fee income collection arrangements

Enhanced procedures and controls were put in place during the year to address this matter and it is no longer considered a significant control issue. Arrangements continue to be monitored to ensure that there is no recurrence of the issue.

Tax liabilities

Mitigating action was taken in respect of the tax liabilities and as such it is no longer deemed to be a significant control issue.

Estates procurement

This issue is still subject to ongoing legal proceedings and to comment further may prejudice these proceedings. Appropriate improvements were made to internal control processes and this issue is now considered closed.

Transfer of third party data

New, proportionate controls and enhanced processes were put in place to facilitate safe bulk data transfers. These processes continue to be subject to ongoing monitoring to ensure adequate protection of data is maintained.

Review of effectiveness

As Accounting Officer, I had responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control was informed by the work of the Internal Audit Division and the executive managers within the Agency who had responsibility for the development and maintenance of the internal control framework, along with comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the HMCS Board, the HMCS Audit Committee and the Risk Management Committee. Where required, a plan to address weaknesses and ensure continuous improvement of the system was put in place.

The HMCS Board and the Directors' Board were updated on the HMCS risk profile and effectiveness of the systems of internal control through the receipt of minutes from the HMCS Audit Committee, the Risk Management Committee and also through a review of

the HMCS performance reports. In addition, a formal process was set up during the year to provide the HMCS Board with a summary of the top risks affecting the organisation on a monthly basis.

My Directors provided me with quarterly statements on internal control, which included control issues raised by directorate and regional management teams, escalated and reviewed by senior management teams. These statements included reporting on sources of internal control assurance and this in turn provided assurance of managements' compliance with operational policies, procedures and established key controls. The HMCS Assurance Programme which provided for reporting on compliance issues at the operational level was rolled out across the organisation (except for small discreet pockets of the business). Staff have been trained in the use of assurance measurement and reporting tools and this is now providing considerable benefits in highlighting operational level issues to managers for remedial action.

The HMCS Audit Committee oversaw the adequacy and effectiveness of the risk management processes and the system of internal control for HMCS in accordance with its terms of reference. The Committee reviewed the planned activity and results of internal and external audits and received regular updates from the Corporate Governance team on management responses to issues identified. It regularly reviewed the corporate risk registers and oversaw the production of the Annual Report and Accounts for the Agency. The HMCS Audit Committee Chair had free and confidential access (without management involvement) to the Ministry of Justice Audit Committee Chair, the Internal Audit Division and external auditors as required.

The Ministry of Justice's Internal Audit Division provided a comprehensive programme of internal audit across HMCS activities, operating to Government Internal Audit Standards. It submitted regular reports to the HMCS Audit Committee and HMCS Board, including the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Agency's governance, control and risk management arrangements together with recommendations for improvement. The overall opinion arising from the Internal Audit Division's work undertaken for 2010-11 is a rating of Green/Amber which indicated that governance, risk management and control arrangements were found to have been established but were not operating effectively or were not being consistently applied. This rating is the same as given for the 2009-10 financial year and demonstrates that the Agency has maintained the same level of control despite the significant changes it has been undertaking.

Other elements of the system of internal control that informed my review of the system's effectiveness include:

- The Assurance Working Group which ensured the organisation had effective arrangements in place by which the Accounting Officer obtained assurance at the operational level. The Assurance Working Group has this year continued to support, monitor and further develop the HMCS Assurance Programme. Work is currently in progress to develop a revised, proportionate, assurance framework that best fits the needs of the new HM Courts & Tribunals Service organisation;
- A Business Continuity Practitioners Forum (at Ministry of Justice level) to oversee the management of business continuity plans that are in place across the organisation. During 2010-11 HMCS undertook a 'proof of concept' test of business continuity arrangements at the recovery site that has been developed for the County Court Bulk Centre which is one of HMCS's bulk processing centres. It has not been possible to undertake a full test of arrangements due to the significant impact this would have had on normal business operations. The limited test was successful but did highlight a number of remaining issues that have either now been resolved or are being taken

forward with suppliers for resolution. As such, within the limited scope of the test, HMCS has reduced the risk of any potential loss of operations for the centre in the future. A further test will be undertaken during 2011-12;

- Shared service statements of assurance from the Ministry of Justice;
- National Audit Office (NAO) Reports – HMCS continued to make progress in implementing recommendations made within the NAO and Public Accounts Committee (PAC) reports on the Administration and Value for Money of the Crown Court. The majority of those actions that are outstanding are due to financial constraints on IT expenditure. Alternative arrangements to address the weaknesses at less of a cost are currently being explored. HMCS has also supported the wider Ministry of Justice in the actions required in the Ministry of Justice Financial Management Report;
- The Annual HM Treasury Report on Fraud and the work of the HMCS Fraud and investigations team;
- The HMCS Court Assurance Support Team which carried out a formal programme of reviews across the operational arm of the organisation, providing support, guidance and recommendations for improvement to court managers and Area Directors in the day-to-day operation of the assurance framework;
- Assurance and quality reviews of the portfolio of change programmes, projects and initiatives by the HMCS Change Board; and
- A whistleblowing policy provided through shared service arrangements at Ministry of Justice level. Last year's statement highlighted that these arrangements were not effective for the Agency. A new policy has subsequently been developed and will be implemented in the new HM Courts & Tribunals Service Agency from June 2011.

Information assurance

On an annual basis an information risk assessment from the Senior Information Risk Owner is conducted which is then reviewed by the Information Security Forum and the HMCS Audit Committee setting out identified risks and mitigation actions. HMCS took information security very seriously and where any losses occurred a full reporting process was in place and where appropriate a report to Ministers was completed. Trends were also robustly monitored to identify any emerging issues.

During the course of this year HMCS has managed a number of minor data loss incidents which have been dealt with and reported in accordance with the established process and reporting procedures. There has been an increase in the number of losses reported this year which is seen as primarily attributable to improved reporting arrangements identifying previously unreported instances. Mitigating actions have been taken in relation to these incidents including, where appropriate, liaison with third parties to try to develop improvements to their systems and processes.

Three complaints have been made to the Information Commissioner of which two were relatively minor issues and have been dealt with in line with the Information Assurance policies. The third, whilst potentially more significant, has been investigated by the Information Commissioner who has determined that no further action will be taken due to the remedial action already taken by the organisation to prevent any recurrence of the incident.

HMCS also worked with members of the judiciary to mitigate the risk of any data losses within their remit. A number of losses have occurred this year of which three incidents are considered to be of significance. These issues are independently investigated and reported through a separate judicial process beyond the remit of HMCS.

Significant internal control issues

The following significant control issues have been highlighted during 2010-11:

Technical security risks and issues

Key systems owned by HMCS are accredited by the Ministry of Justice Information Communication and Technology Directorate. This includes key business systems and the infrastructure over which many systems are accessed.

During the course of the accreditation process and risk assessments, some vulnerabilities and weaknesses were identified, including inadequate system monitoring and malware control. Such issues may increase the risk of system compromise. The Ministry of Justice Information Communication and Technology Directorate are continuing to work with system owners, suppliers and information asset owners to identify, quantify and to attempt to mitigate such vulnerabilities through improved processes, implementation of new technical countermeasures or through improvements to existing technical controls.

Ongoing investigations

HMCS had officers dedicated to managing and investigating fraud and irregularity incidents. There were relatively few in number in total across the organisation but there are a small number of cases deemed more significant which continue to be investigated in conjunction with the police, including a number of instances reported in previous years' Statement on Internal Control where investigations are continuing. Further information however cannot be disclosed as to do so may prejudice these investigations.

I am confident that both of the above control issues have been subjected to rigorous review and that comprehensive action plans are in place to address identified weaknesses.



Peter Handcock CBE
Chief Executive and Accounting Officer

27 June 2011

Remuneration report

The tables in this Remuneration report have been subject to audit and are referred to in the Certificate and Report of the Comptroller and Auditor General to the House of Commons.

Board members' Remuneration report

The Prime Minister sets the remuneration policy of senior civil servants following independent advice from the Senior Salaries Review Body. The salaries of HMCS Board members were determined by the Permanent Secretary of the Ministry of Justice in accordance with the rules of the Civil Service Management Code.

Remuneration details of HMCS Board members who served during 2010-11 are shown below:

Name	Board member's role	2010-11			2009-10	
		Salary (excluding pension contributions) £000	Full year salary equivalent (excluding pension contributions) £000	Bonuses £000	Salary (excluding pension contributions) £000	Bonuses £000
Sir Duncan Nichol CBE	Chairman (to 31 March 2011)	45 – 50	45 – 50	Nil	95 – 100	Nil
Chris Mayer CBE	Chief Executive (to 30 September 2010)	60 – 65 ¹	125 – 130	5 - 10	125 – 130	Nil
Peter Handcock CBE	Access to Justice Director-General, Ministry of Justice Representative (to 30 September 2010); Chief Executive (from 1 October 2010 to 31 March 2011)	70 – 75	140 – 145	5 – 10	Nil ²	Nil ²
Owen Mapley	Finance Director (to 30 November 2010)	60 – 65	90 – 95	5 – 10	80 – 85	5 - 10
Steve Gillespie	Finance Director (from 1 December 2010 to 31 March 2011)	25 – 30	80 – 85	Nil	Nil	Nil
Alan Eccles	Regional Director (Board Member to 31 March 2011)	140 – 145	140 – 145	5 – 10	Nil	Nil
Clare Pillman	Regional Director (Board Member from 1 June 2010 to 7 March 2011)	60 – 65	80 – 85	Nil	Nil	Nil
Anita Bharucha	Programme Director, Courts and Tribunals Integration Programme, Ministry of Justice Representative (from 1 October 2010 to 4 February 2011)	Nil ³	Nil ³	Nil ³	Nil ³	Nil ³
Jonathan Booth	Director, Criminal Justice Reform, Ministry of Justice Representative (from 5 February to 31 March 2011)	Nil ⁴	Nil ⁴	Nil ⁴	Nil ⁴	Nil ⁴
Guy Beringer QC	Non Executive Director (to 31 March 2011)	10 – 15	10 – 15	Nil	10 – 15	Nil
Kenneth Ludlam	Non Executive Director (to 31 March 2011)	10 – 15	10 – 15	Nil	10 – 15	Nil

Name	Board member's role	2010-11			2009-10	
		Salary (excluding pension contributions) £000	Full year salary equivalent (excluding pension contributions) £000	Bonuses £000	Salary (excluding pension contributions) £000	Bonuses £000
Lord Justice Goldring	Judicial Member (to 31 March 2011)	Nil ⁵	Nil ⁵	Nil ⁵	Nil ⁵	Nil ⁵
His Honour Judge William Kennedy	Judicial Member (to 31 March 2011)	Nil ⁵	Nil ⁵	Nil ⁵	Nil ⁵	Nil ⁵
District Judge Michael Walker CBE	Judicial Member (to 31 March 2011)	Nil ⁵	Nil ⁵	Nil ⁵	Nil ⁵	Nil ⁵

Notes:

¹ In addition to the salary amounts shown above, Chris Mayer CBE received a payment in lieu of notice on departure within the range of £30,000 to £35,000 and a payment in lieu of accrued leave entitlements within the range of £5,000 to £10,000. These payments were in line with the terms of the Civil Service Compensation Scheme introduced by the government in December 2010.

² Peter Handcock CBE sat on the HMCS Board as the formal representative of the Ministry of Justice during 2009-10 and to 30 September 2010. Remuneration details for this period are contained within the Ministry of Justice resource accounts.

³ Anita Bharucha sat on the HMCS Board as the formal representative of the Ministry of Justice. Remuneration details are contained within the Ministry of Justice resource accounts.

⁴ Jonathan Booth sat on the HMCS Board as the formal representative of the Ministry of Justice. Remuneration details are contained within the Ministry of Justice resource accounts.

⁵ Judicial members are remunerated as judges and received no additional payments as directors of HMCS.

No ex-gratia amounts were paid to any Board members who departed during the year.

No Board members received any benefits in kind during 2010-11 or 2009-10.

Salary covers both pensionable and non-pensionable amounts and includes, but may not necessarily be confined to: gross salaries; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private-office allowances or other allowances to the extent that they are subject to UK taxation; and any ex-gratia payments. The figures shown do not include amounts that are a reimbursement of expenses directly incurred in the performance of an individual's duties.

Performance pay or bonuses are based on an assessment against a set of consistent criteria designed to measure the individual's performance against the objectives and targets set and agreed by the individual and their manager.

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs as a taxable emolument. There were no amounts payable to third parties in respect of Board members in 2010-11.

Subsequent to the end of the financial year a new HM Courts & Tribunals Service Board was formed (effective from 1 April 2011), replacing the separate HMCS and Tribunals Service Boards. However, the HMCS Board re-convened subsequent to 31 March 2011 to review and formally recommend the Annual Report and Accounts for signing by the Chief Executive. Members did not receive any additional remuneration for performing this function.

Board members' service contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition, but also outlines other circumstances under which appointments may be made.

HMCS Board members are employed on contracts that are open ended until they reach the normal retiring age. The duration of Senior Civil Service contracts is the fixed term or in accordance with the standard four-year posting.

Name	Contract start date	Unexpired term	Notice period
Sir Duncan Nichol CBE	1 April 2008	N/A ¹	N/A ¹
Chris Mayer CBE	5 December 1974	To retirement	3 months
Peter Handcock CBE	4 January 1971	To retirement	3 months
Owen Mapley	23 July 2007	To retirement	3 months
Steve Gillespie	22 November 1976	To retirement	3 months
Alan Eccles	1 April 2005	To retirement	3 months
Clare Pillman	9 November 1992	To retirement	3 months
Anita Bharucha	23 August 1993	To retirement	3 months
Jonathan Booth	2 October 1989	To retirement	3 months
Guy Beringer QC	1 April 2008	N/A ¹	N/A ¹
Kenneth Ludlam	1 April 2008	N/A ¹	N/A ¹
Lord Justice Goldring	N/A ²	N/A ²	N/A ²
His Honour Judge William Kennedy	N/A ²	N/A ²	N/A ²
District Judge Michael Walker CBE	N/A ²	N/A ²	N/A ²

Notes:

¹ Contract ended 31 March 2011.

² Judicial members do not operate under contracts.

There was no provision in the accounts for compensation of HMCS Board Members as of 31 March 2011. Early termination, other than by misconduct, would result in the individual receiving compensation in accordance with the terms of the Civil Service Compensation Scheme under section 1 of the Superannuation Act 1972.

Board members' pensions benefits and cash equivalent transfer values (CETVs)

Name	Real increase/(decrease) in pension at pension age and related lump sum in 2010-11 £000	Accrued pension at pension age and related lump sum at 31 March 2011 £000	CETV at 31 March 2011 £000	CETV at 31 March 2010 £000	Real increase/(decrease) in CETV in CETV £000
Sir Duncan Nichol CBE	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹
Chris Mayer CBE	(2.5) – 0 plus (2.5) – 0.0 lump sum	55 – 60 plus 175 – 180 lump sum	1,171	1,139	(3)
Peter Handcock CBE	(2.5) – 0 plus nil lump sum	85 – 90 plus nil lump sum	1,802	1,705	(6)
Owen Mapley	0 – 2.5 nil lump sum	5 – 10 nil lump sum	41	32	6

Name	Real increase/(decrease) in pension at pension age and related lump sum in 2010-11 £000	Accrued pension at pension age and related lump sum at 31 March 2011 £000	CETV at 31 March 2011 £000	CETV at 31 March 2010 £000	Real increase/(decrease) in CETV in CETV £000
Steve Gillespie	0 – 2.5 plus 2.5 – 5.0 lump sum	30 – 35 plus 95 – 100 lump sum	620	555	28
Alan Eccles	0 – 2.5 plus nil lump sum	45 – 50 plus nil lump sum	749	665	2
Clare Pillman	0 – 2.5 plus 0 – 2.5 lump sum	20 – 25 plus 60 – 65 lump sum	320	278	4
Anita Bharucha	N/A ²	N/A ²	N/A ²	N/A ²	N/A ²
Jonathan Booth	N/A ³	N/A ³	N/A ³	N/A ³	N/A ³
Guy Beringer QC	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹
Kenneth Ludlam	N/A ¹	N/A ¹	N/A ¹	N/A ¹	N/A ¹
Lord Justice Goldring	N/A ⁴	N/A ⁴	N/A ⁴	N/A ⁴	N/A ⁴
His Honour Judge William Kennedy	N/A ⁴	N/A ⁴	N/A ⁴	N/A ⁴	N/A ⁴
District Judge Michael Walker CBE	N/A ⁴	N/A ⁴	N/A ⁴	N/A ⁴	N/A ⁴

Notes:

¹ No pension contributions are made on behalf of HMCS non-executive Board members.

² Anita Bharucha sat on the HMCS Board as the formal representative of the Ministry of Justice. Pension benefits are contained within the Ministry of Justice resource accounts.

³ Jonathan Booth sat on the HMCS Board as the formal representative of the Ministry of Justice. Pension benefits are contained within the Ministry of Justice resource accounts.

⁴ Judicial members are remunerated as judges and received no additional pension entitlements as directors of HMCS.

Pension benefits

Pension benefits are provided through the Principal Civil Service Pension Scheme (PCSPS) arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes: classic, premium and classic plus. The schemes are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line with changes in the Consumer Price Index. New entrants after 1 October 2002 may choose between membership of the premium scheme or joining a good quality 'money purchase' stakeholder based arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable earnings for each year of service; additionally, a lump sum equivalent to three years' pension is payable on retirement. Benefits in premium accrue at the rate of 1/60th of final pensionable earnings for each year of service; there is no automatic lump sum but members may commute some of their pension to provide a lump sum. Classic plus is a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5%, depending on the age of the member, into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where employees do make contributions the employer will match these up to a limit of 3% of pensionable salary in addition to the employer's basic contribution. Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

Further details about the PCSPS arrangements can be found at www.civilservice-pensions.gov.uk.

Cash equivalent transfer values

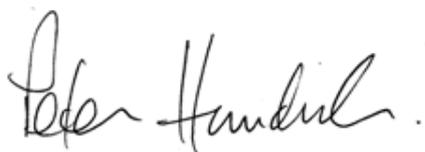
A CETV is the actuarially-assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme, or an arrangement to secure pension benefits in another pension scheme, or an arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures and other pension details include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the PCSPS and for which the Civil Superannuation Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost.

CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

Real increase in cash equivalent transfer value

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation and contributions paid by the employee. This includes the value of any benefits transferred from another pension scheme or arrangement and uses common market valuation factors for the start and end of the period.



Peter Handcock CBE
Chief Executive and Accounting Officer

27 June 2011

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

I certify that I have audited the financial statements of Her Majesty's Courts Service ("the Agency") for the year ended 31 March 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flow, the Statement of Changes in Taxpayers' Equity, and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

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. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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. This includes an assessment of: whether the accounting policies are appropriate to the Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Agency; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on Regularity

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

Opinion on the financial statements

In my opinion:

- The financial statements give a true and fair view, of the state of the Agency's affairs as of 31 March 2011, and of the net operating cost 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 other matters

In my opinion:

- The part of the Remuneration report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- The information given in the Chief Executive's report 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 and the part of the Remuneration report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- The Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

Date 29 June 2011

Statement of Comprehensive Net Expenditure for the Year Ended 31 March 2011

	Notes	2010-11	2009-10 restated*
		£000	£000
Revenue	6	607,921	612,420
Staff and judiciary costs	7	(844,812)	(846,075)
Other operating costs	8.1	(785,014)	(697,141)
Depreciation	9	(101,203)	(115,295)
Amortisation	12	(13,505)	(1,778)
Net cost of operations		(1,136,613)	(1,047,869)
Finance costs	8.2	(28,098)	(40,529)
Net costs		(1,164,711)	(1,088,398)

*The 2009-10 balances have been restated to reflect changes in accounting policies as set out on pages 48 to 49.

Included in the Statement of Comprehensive Net Expenditure is net programme expenditure of £1,149.4m (2009-10: £1,073.1m) and net administration expenditure of £15.3m (2009-10: £15.3m).

Other Comprehensive Expenditure

	Notes	2010-11	2009-10 restated*
		£000	£000
Net costs		(1,164,711)	(1,088,398)
Net gain/(loss) on revaluation of property and equipment during the year		38,940	(90,546)
Net (loss)/gain on revaluation of intangible assets during the year		(332)	1,084
Total comprehensive expenditure		(1,126,103)	(1,177,860)

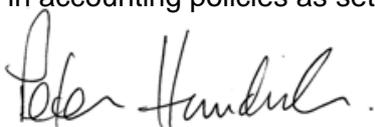
*The 2009-10 balances have been restated to reflect changes in accounting policies as set out on pages 48 to 49.

The notes on pages 39 to 80 form part of these accounts.

Statement of Financial Position as of 31 March 2011

	Notes	31 March 2011	31 March 2010 restated*	31 March 2009 restated*
		£000	£000	£000
Non-current assets				
Property and equipment	9	2,799,914	2,760,984	3,031,164
Investment property	10	1,000	1,855	2,595
Intangible assets	12	71,378	67,396	45,309
Trade and other receivables	13	136	38,982	10,350
Operating lease prepayments	19	150	154	159
Total non-current assets		2,872,578	2,869,371	3,089,577
Current assets				
Assets held for sale	11	20,252	4,103	3,055
Trade and other receivables	13	245,977	96,495	46,988
Cash and cash equivalents	14	55,323	153,046	239,450
Total current assets		321,552	253,644	289,493
Total assets		3,194,130	3,123,015	3,379,070
Current liabilities				
Trade and other payables	16	342,224	311,130	254,306
Provisions for liabilities and charges	17	31,914	32,030	18,313
Total current liabilities		374,138	343,160	272,619
Total assets less current liabilities		2,819,992	2,779,855	3,106,451
Non-current liabilities				
Trade and other payables	16	252,455	256,084	266,862
Provisions for liabilities and charges	17	425,099	267,447	443,262
Total non-current liabilities		677,554	523,531	710,124
Total assets less total liabilities		2,142,438	2,256,324	2,396,327
Taxpayers' equity				
General fund		1,901,204	2,045,345	2,086,109
Revaluation reserves		241,234	210,979	310,218
Total taxpayers' equity		2,142,438	2,256,324	2,396,327

*The 31 March 2010 and 31 March 2009 balances have been restated to reflect changes in accounting policies as set out on pages 48 to 49.



Peter Handcock CBE
Chief Executive and Accounting Officer

27 June 2011

The notes on pages 39 to 80 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the Year Ended 31 March 2011

Notes	2010-11			2009-10 restated*		
	General fund	Revaluation reserves	Total	General fund	Revaluation reserves	Total
	£000	£000	£000	£000	£000	£000
Balance as of the beginning of the period	2,045,345	210,979	2,256,324	2,086,109	310,218	2,396,327
Net resources introduced on HMCS creation	9	-	-	2,766	-	2,766
Funding from the Ministry of Justice	738,700	-	738,700	744,000	-	744,000
Net costs for the year	(1,164,711)	-	(1,164,711)	(1,088,398)	-	(1,088,398)
Revaluation of property and equipment during the year	(4,522)	43,462	38,940	-	(90,546)	(90,546)
Revaluation of intangible assets during the year	-	(332)	(332)	-	1,084	1,084
Reclassification from revaluation reserves of realised element	12,875	(12,875)	-	9,777	(9,777)	-
Notional costs	273,167	-	273,167	291,091	-	291,091
Other movements	350	-	350	-	-	-
Balance as of the end of the period	1,901,204	241,234	2,142,438	2,045,345	210,979	2,256,324

*The 2009-10 balances have been restated to reflect changes in accounting policies as set out on pages 48 to 49.

The notes on pages 39 to 80 form part of these accounts.

Statement of Cash Flow for the Year Ended 31 March 2011

	Notes	2010-11 £000	2009-10 restated* £000
Cash flows from operating activities			
Net costs		(1,164,711)	(1,088,398)
Adjust for:			
Notional and non-cash costs	15	586,949	451,965
Finance costs	8.2	28,098	40,529
Changes in trade and other receivables		(110,609)	(76,737)
Changes in trade and other payables		(6,123)	25,689
Cash movements in provisions		(35,623)	(33,119)
Net cash outflow from operating activities		(702,019)	(680,071)
Cash flows from investing activities			
Purchases of property and equipment		(96,270)	(89,172)
Proceeds from disposal of property and equipment		2,403	2,203
Purchases of intangible assets	12	(8,941)	(22,262)
Net cash outflow from investing activities		(102,808)	(109,231)
Cash flows from financing activities			
Funding from the Ministry of Justice		738,700	744,000
Capital element of PFI contracts		(8,926)	(8,926)
Capital element of finance leases		92	71
Repayments of local authority loans		(3,293)	(14,421)
Interest paid		(12,984)	(13,937)
Net cash inflow from financing activities		713,589	706,787
Decrease in third party balances		(6,485)	(3,889)
Net decrease in cash and cash equivalents in the period	14	(97,723)	(86,404)
Cash and cash equivalents as of the beginning of the period	14	153,046	239,450
Cash and cash equivalents as of the end of the period	14	55,323	153,046

*The 2009-10 balances have been restated to reflect changes in accounting policies as set out on pages 48 to 49.

The notes on pages 39 to 80 form part of these accounts.

Notes to the Accounts for the Year Ended 31 March 2011

1 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Accounts are set out below.

Basis of preparation

The Accounts have been prepared in accordance with the 2010-11 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as interpreted for the public sector.

The functional and presentational currency of HMCS is pound sterling.

The Accounts have been prepared under the historical cost convention, as modified by the revaluation of property and equipment, investment property and intangible assets.

The preparation of the Accounts in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies.

Administration and programme expenditure

The Statement of Comprehensive Net Expenditure is not split between administration and programme net expenditure as administration expenditure is not material to HMCS. However, a disclosure of total net administration and programme expenditure is provided in accordance with FReM requirements. The classification of net expenditure as administration or programme follows HM Treasury budgetary requirements.

Revenue

Operating revenue, excluding recoverable Value Added Tax (VAT) where relevant, is authorised by HM Treasury to be treated as revenue appropriated in aid and is therefore recognised as revenue by HMCS in the Statement of Comprehensive Net Expenditure.

Funding from the Ministry of Justice is credited directly to the General Fund in line with FReM requirements.

Fee revenue

Fee revenue consists of amounts for services rendered to civil and family court users. The elements that relate to work yet to be completed are held in the Statement of Financial Position as deferred revenue. The deferred revenue is subsequently recognised as revenue upon completion of the service.

The point at which the revenue is recognised depends upon the nature and circumstances of the individual service which is provided. For most revenue streams, the service provided by HMCS is the initiation of the application, which occurs immediately on receipt of the application. The accompanying application fee is therefore recognised as revenue immediately on receipt.

For certain fee revenue streams, such as warrants and assessments, an estimate is made of the time period in which the application is made (typically one week) and the deferred element is thus determined.

For other fee revenue streams, such as petitions, appeals and probate, specific records are maintained in respect of the outstanding services and the deferred revenue is directly determined based upon these.

Fee revenue is stated net of fee remissions and exemptions (REMEX). The REMEX scheme is prescribed in the Fee Orders approved by Parliament, and remitted fees are not collected by HMCS. The financial objective of full cost recovery net of REMEX is agreed with HM Treasury to ensure that individuals are not denied access to justice through inability to afford the prescribed fees.

Fines and financial penalties imposed by the criminal justice system

Magistrates' courts are responsible for collecting fines and financial penalties imposed by the criminal justice system.

Financial penalties comprise: fixed penalties, confiscation orders, prosecutors' costs and compensation orders. Financial penalty receipts are remitted directly to appropriate government departments or the victims of crime and are not recognised as revenue by HMCS.

Fine revenue

Fine receipts are surrendered to the Consolidated Fund except in instances where HMCS is entitled to retain an element of amounts collected. In such instances, HMCS recognises fine revenue upon receipt. There are four main fine revenue streams:

- 1 Warrant enforcement: An element of fines collected by HMCS on behalf of other government departments is retained to cover the cost of fine enforcement operations.
- 2 Fine incentives: An additional element of the fines collected on behalf of other government departments is retained in line with the fines incentive scheme. This scheme is based on fine collection rates for the period.
- 3 Asset recovery: HMCS is entitled to receive 12.5% (2009-10: 12.5%) of proceeds from assets recovered during the period on behalf of and as agreed with other participating government departments.
- 4 Courts Act revenue: This is received towards the implementation of initiatives related to the national rollout of the Courts Act 2003.

HMCS Trust Statement

From 2010-11, HM Treasury requires Government departments that collect material revenues from taxes, duties, fines and penalties, on behalf of the Consolidated Fund, to prepare a stand-alone Trust Statement that specifically reports on the financial activities relating to such collections.

HMCS, as the Executive Agency of the Ministry of Justice responsible for collecting fines and financial penalties imposed by the criminal justice system, is therefore preparing a stand-alone Trust Statement for 2010-11 that should be read in conjunction with the HMCS Annual Report and Accounts.

The Trust Statement accounts for fines and penalties imposed by the criminal justice system as revenue ultimately payable to the Consolidated Fund, on a gross basis. The element of amounts collected that HMCS is entitled to retain as income in these Accounts is treated as expenditure in the Trust Statement, to reflect a reduction in the amount due to the Consolidated Fund.

Notional costs

The salary and social security costs of senior judges, being independent of HMCS, are funded from the consolidated fund and are included in the Accounts of HMCS as notional costs. Senior judges also receive long service payments under an agreement with the Ministry of Justice. There is a provision for these payments within the Ministry of Justice resource accounts.

Other notional charges are auditors' remuneration, notional rent on properties owned by the City of London Corporation and Royal Borough of Kingston upon Thames, and departmental overhead charges recharged by the Ministry of Justice.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive and Accounting Officer.

Property and equipment – land and buildings (including dwellings)

Land and buildings (including dwellings) comprise mainly court facilities. Land and buildings (excluding ingoing works) are shown at fair value, based on professional valuations. The Valuation Office Agency (VOA), who are independent of HMCS, carries out the valuations in accordance with the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Manual, known as the "Red Book" as of 31 March each year. Ingoing works are fair valued using the Building Cost Information Service Tender Price Index as compiled by the RICS.

The land and buildings are valued on a rolling annual basis in which 20% of the land and buildings are physically visited and valued, the other 80% are valued on a desktop basis. The majority of operational buildings are valued at depreciated replacement cost to a modern equivalent basis. All other buildings are measured at fair value determined from market-based evidence.

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

When an asset's carrying amount decreases as a result of a permanent diminution in the value of the asset due to a clear consumption of economic benefit or service potential, the decrease is charged directly to Other Operating Costs in the Statement of Net Comprehensive Expenditure, with any remaining Revaluation Reserves balance released to the General Fund.

When an asset's carrying amount decreases (other than as a result of a permanent diminution), the decrease is recognised in the Revaluation Reserve to the extent a balance exists in respect of that asset. Any further decrease in excess of revaluation surpluses is charged to Other Operating Costs in the Statement of Comprehensive Net Expenditure.

Each year the revalued element, representing the difference between depreciation based on the revalued carrying amount of the asset charged to the Statement of Comprehensive Net Expenditure and depreciation based on the asset's original cost, is transferred from Revaluation Reserves to the General Fund.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits or service potential associated with the item will flow to HMCS and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the Statement of Comprehensive Net Expenditure during the financial period in which they are incurred.

Property and equipment – other assets

Other assets comprise information technology, equipment, furniture, fixtures and fittings. These assets are included at cost upon purchase and are revalued at the end of each reporting period using Price Index Numbers for Current Cost Accounting (Office for National Statistics).

Other assets revaluations and subsequent costs are accounted for in a consistent manner to land and buildings above.

Assets under construction

Assets under construction are valued at historical cost within Assets Under Construction and are not depreciated. An asset ceases to be classified as an asset under construction when it is ready for use. Its carrying value is then removed from assets under construction and transferred to the respective asset category. Depreciation is then charged on the asset in accordance with the depreciation accounting policy.

Depreciation

Depreciation is calculated using the straight-line method to allocate the revalued amounts to the residual values over the assets' estimated useful lives. Estimated useful lives are as follows:

Freehold buildings (including dwellings)	shorter of remaining life or 60 years
Leasehold buildings (including dwellings)	shortest of remaining life, remaining lease period or 60 years
Leasehold land	shorter of remaining life or remaining lease period
Information technology	shorter of remaining lease period or 7 years
Equipment	shorter of remaining lease period or 3 to 5 years
Furniture, fixtures and fittings	shorter of remaining lease period or 10 to 20 years

No depreciation is charged on freehold land, investment property, assets held for sale or assets under construction.

The assets' useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each reporting period. The remaining life of buildings is determined according to the rolling programme of professional valuations.

Disposal of property and equipment

Gains and losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are recognised within Other Operating Costs in the Statement of Comprehensive Net Expenditure.

When revalued assets are sold, the amounts included in Revaluation Reserves are transferred to the General Fund.

Private Finance Initiative (PFI) transactions

HM Treasury has determined that government bodies shall account for infrastructure PFI schemes, where the government body controls the use of the infrastructure and the residual interest in the infrastructure at the end of the arrangement as service concession arrangements. HMCS has therefore recognised 'on Statement of Financial Position' PFI schemes as property and equipment together with a liability to pay for them. The services received under the contract are recorded as operating expenses. 'Off Statement of Financial Position' PFI schemes are treated as operating leases. See note 21 for further details of these schemes.

For 'on Statement of Financial Position' PFI schemes, the annual unitary payments are separated into the following component parts, using appropriate estimation techniques where necessary:

- Payment for the fair value of services received; and
- Payment for the PFI asset, including finance costs.

Services received

The fair value of services received in the year is recorded under the relevant expenditure headings within Other Operating Costs.

PFI asset

A PFI asset is recognised as property and equipment, as the asset comes into use. The asset is capitalised at the lower of the fair value of the property or equipment and the present value of the minimum payments. Subsequently, the asset is measured at fair value according to HMCS's accounting policy for each relevant class of asset.

PFI liability

A PFI liability is recognised at the same time the PFI asset is recognised. It is measured initially at the same amount as the fair value of the PFI asset and is subsequently measured at amortised cost. The corresponding rental obligations, net of finance charges, are included in trade and other payables. Interest is charged to the Statement of Comprehensive Net Expenditure over the arrangement period at a constant periodic rate of interest on the remaining balance of the liability for each period.

Lease classification

Leases are classified as either finance leases or operating leases based on the substance of the arrangement. The lease of land and buildings is split at inception of the lease into a separate lease of land and a lease of buildings.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Net Expenditure on a straight-line basis over the period of the lease. Contingent rent is recognised in the period in which it arises.

Up-front payments for a leasehold interest classified as an operating lease are recognised as a Lease Prepayment in the Statement of Financial Position and amortised over the lease term.

Lease revenue from operating leases where HMCS is the lessor is recognised in revenue on a straight-line basis over the lease term.

Finance leases

HMCS leases certain property and equipment from other parties. Leases of property and equipment where HMCS has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased property or equipment and the present value of the minimum lease payments. Up-front payments for a leasehold interest classified as a finance lease are capitalised as part of the asset.

The corresponding rental obligations, net of finance charges, are included in trade and other payables. Interest is charged to the Statement of Comprehensive Net Expenditure over the lease period at a constant periodic rate of interest on the remaining balance of the liability for each period. Contingent rent is recognised in the period in which it arises.

The property and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term if there is no reasonable certainty that HMCS will obtain ownership at the end of the lease term.

Investment property

Investment property comprises freehold land and buildings not principally occupied by HMCS. Investment property is carried at fair value, which is based on active market prices adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. The Valuation Office Agency (VOA), who are independent of HMCS, carries out the valuations in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual, known as the "Red Book" as of 31 March each year. Changes in fair values are recorded in the Statement of Comprehensive Net Expenditure.

When investment property is leased out under an operating lease, the leased asset remains within Investment Property in the Statement of Financial Position. The lease revenue is recognised over the term of the lease on a straight-line basis.

Non-current assets held for sale

Non-current assets are classified as 'held for sale' when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. Assets held for sale are stated at the lower of their carrying amount immediately prior to classification as 'held for sale' and their 'fair value less costs to sell'. Any subsequent impairment or reversal of impairment is recognised in the Statement of Comprehensive Net Expenditure. Assets classified as held for sale are not depreciated.

Intangible assets

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by HMCS are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use it;
- There is an ability to use the software product;
- The software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development of the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Intangible assets in service are remeasured at the end of each reporting period using Price Index Numbers for Current Cost Accounting (Office of National Statistics).

Intangible assets in service are amortised on a straight-line basis over their estimated useful lives, which will not exceed seven years.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Impairment of property and equipment, and intangible assets

Property and equipment and intangible assets are subject to an annual impairment review.

Impairments that reflect a permanent diminution in the value of an asset as a result of a clear consumption of economic benefit or service potential are charged directly to Other Operating Costs in the Statement of Net Comprehensive Expenditure, with any remaining Revaluation Reserves balance released to the General Fund.

For all other impairments, the decrease is recognised in the revaluation reserve to the extent a balance exists in respect of that asset. Impairment amounts in excess of revaluation surpluses are charged to Other Operating Costs in the Statement of Comprehensive Net Expenditure.

Cash and cash equivalents

Cash and cash equivalents recorded in the Statement of Financial Position and Statement of Cash Flow include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Third party cash balances

HMCS holds a number of different cash balances on behalf of third parties. These predominantly consist of bail monies, which are received and held while a criminal case progresses, and third party settlement amounts where HMCS acts as the intermediary for settlement between claimants and defendants.

Third party cash balances are included in the Cash and cash equivalents balance disclosed in note 14 and within the Trade and other payables balance disclosed in note 16, and therefore have no net impact on the Statement of Financial Position.

Financial instruments

Recognition

Financial assets and financial liabilities which arise from contracts for the purchase and sale of non-financial items (such as goods or services), which are entered into in accordance with HMCS's normal purchase, sale or usage requirement, are recognised when, and to the extent which, performance occurs. All other financial assets and liabilities are recognised when HMCS becomes party to the contractual provisions to receive or make cash payments.

De-recognition

A financial asset is considered for de-recognition when the contractual rights to the cash flows from the financial asset expire, or HMCS has either transferred the contractual right

to receive the cash flows from the asset, or has assumed an obligation to pay those cash flows to one or more recipients, subject to certain criteria. HMCS de-recognises a transferred financial asset if it transfers substantially all the risks and rewards of ownership.

Classification and measurement

Financial assets, other than Cash and cash equivalents, are classified as Trade and other receivables and are measured at amortised cost.

Financial liabilities are classified as Trade and other payables and are measured at amortised cost.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments and are not quoted in an active market. HMCS's Trade and other receivables comprise of trade and other debtors, deposits and advances, accrued revenue, intra-departmental debtors and inter-departmental debtors. Trade and other receivables are initially recognised at fair value and are measured at amortised cost using the effective interest rate method. The effective interest rate is a method of calculating the amortised cost of a financial asset and of allocating the interest revenue or expense over the relevant period using the estimated future cash flows.

Impairment of financial assets

At the end of each reporting period, HMCS assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is:

- Objective evidence of impairment as a result of a loss event that occurred after the initial recognition of the asset and up to the end of the reporting period ('a loss event');
- The loss event had an impact on the estimated future cash flows of the financial asset or the group of financial assets; and
- A reliable estimate of the amount can be made.

Financial assets are recorded in the Statement of Financial Position net of any impairments.

Financial liabilities

All financial liabilities are recognised initially at fair value, net of any transaction costs incurred, and then measured at amortised cost using the effective interest rate method. They are included in current liabilities except for the amounts payable more than twelve months after the end of the reporting period, which are classified as non-current liabilities. Interest on financial liabilities carried at amortised cost is calculated using the effective interest rate method and is charged to the Statement of Comprehensive Net Expenditure.

Value Added Tax (VAT)

Most of the activities of HMCS are outside the scope of VAT. Irrecoverable VAT is charged to the relevant expenditure category or included in the capital purchase cost of assets.

Machinery of Government changes

The transfer of responsibility from one part of the public sector to another is accounted for as a Machinery of Government change using merger accounting principles. HMCS applies these principles to Machinery of Government changes material to the Accounts, while immaterial transfers are treated as an intra-government transaction.

Provision for pensions

Most past and present employees of HMCS are covered by the Principal Civil Service Pension Scheme (PCSPS), while members of the Judiciary are covered by the Judicial Pension Scheme (JPS). The pension benefits payable under the PCSPS are funded on an annual basis through a separate resource supply voted on each year by Parliament. The JPS scheme is funded from the consolidated fund.

The pension schemes are multi-employer defined benefit schemes. HMCS is unable to identify its share of the underlying assets and liabilities of the schemes. The pension schemes are treated as defined contribution plans within HMCS's Accounts. The Ministry of Justice charges HMCS an allocation of the annual cost of the pension schemes, which is determined on an actuarial basis. The Ministry of Justice charge is recognised as an employee expense within HMCS's Accounts.

HMCS has recognised a provision for the pension transfer deficit arising from the transfer of employees from Magistrates' Courts Committees to HMCS in 2005, since this represents an additional liability calculated under a separate agreement with the PCSPS. This provision is formally valued on an annual basis by the Government Actuary's Department (GAD) and the amount recorded in the Statement of Financial Position reflects this valuation.

Provision for early departure costs

HMCS is required to pay the additional cost of benefits beyond the normal PCSPS benefits in respect of employees who retire early, unless the retirement is on approved medical grounds. The total cost is provided in full when the early departure programme or individual agreement is binding on HMCS. The provision is measured at the present value of the expenditures required to settle the obligation. Where the effect is material, the estimated risk-adjusted cash flows are discounted using the nominal rate set by HM Treasury (2010-11: 5.6% and 2009-10: 4.6%). The increase in the provision due to passage of time is recognised as interest expense.

Other provisions

Other provisions are recognised when HMCS has:

- A present legal or constructive obligation as a result of past events;
- It is probable that an outflow of resources will be required to settle the obligation; and
- The amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. Where the effect is material, the estimated cash flows are discounted. The increase in the provision due to passage of time is recognised as interest expense.

Provisions are not recognised for future operating losses.

Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, HMCS discloses, for Parliamentary reporting and accountability purposes, certain statutory and non-statutory contingent liabilities where the likelihood of transfer of economic benefit is remote as required by the Managing Public Money guidelines.

Where the time value of money is material, contingent liabilities that are required to be disclosed under IAS 37 are measured at discounted amounts. Contingent liabilities that are not required to be reported under IAS 37 are stated at the amount reported to Parliament.

Contingent assets

Contingent assets are disclosed where a possible asset arises from a past event and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within HMCS's control.

General Fund

Funding received from the government is credited to the General Fund within Taxpayers' Equity in the Statement of Financial Position upon receipt of the funds.

Changes in accounting policy and disclosures

Changes in accounting policy

Leases – IAS 17 (Amendment)

HMCS has adopted the amended IAS 17 from 1 April 2010, which requires that a lease of land is subject to the general lease criteria of IAS 17. Where a lease of land transfers substantially all of the risks and rewards incidental to ownership of the land to the lessee, then the lease is a finance lease; otherwise it is an operating lease.

Previously, the standard specified that a lease of land with an indefinite economic life would normally be classified as an operating lease, unless title was expected to pass to the lessee at the end of the lease term.

The adoption of the amendment has required the restatement of prior year comparatives. Relative to the 2009-10 Accounts, this has resulted in an increase in Property and equipment of £43.4m, a reduction in Lease prepayments of £19.1m, an increase in Trade and other payables of £5.3m, a decrease to the General fund of £11.3m and an increase in Revaluation reserves of £30.3m. These changes are reflected in the 2009-10 restated column of the Statement of Financial Position.

HM Treasury Alignment (Clear Line of Sight) Project – Notional expenditure

HMCS has adopted the amended 2010-11 FReM notional expenditure requirement from 1 April 2010, which requires that notional costs of capital are no longer charged by HMCS.

Previously, a charge reflecting the cost of capital utilised by HMCS was included in finance costs. This charge was set by HM Treasury at 3.5% on the carrying value of net assets excluding: amounts due to or from the consolidated fund; advances from the contingencies fund; cash holdings with the Office of HM Paymaster General; and amounts due to or from entities within the Ministry of Justice family through inter-agency transactions.

The adoption of the amendment has required the restatement of prior year comparatives. Relative to the 2009-10 Accounts, this has resulted in a decrease in Finance costs of £74.0m and a decrease in the General Fund of £74.0m. These changes are reflected in the 2009-10 restated column of the Statement of Comprehensive Net Expenditure and Statement of Financial Position respectively.

HM Treasury Alignment (Clear Line of Sight) Project – Impairment

HMCS has adopted the 2010-11 FReM adapted IAS 36 from 1 April 2010, which requires that impairments that are due to a clear consumption of economic benefit or service potential are recorded directly in the Statement of Net Comprehensive Expenditure, with any remaining revaluation reserve balance released to the General Fund.

Previously, all impairments, other than for assets classified as 'held for sale', were recorded first against any available revaluation reserve and then to the Statement of Net Comprehensive Expenditure.

In 2010-11, the adoption of the adaptation has resulted in an increase in other operating costs of £59.4m, a decrease in Revaluation reserves of £5.1m and an increase in the General Fund of £5.1m. The change has a £nil impact on prior year comparatives.

HM Treasury Alignment (Clear Line of Sight) Project – Trust Statements

From 2010-11, HM Treasury requires Government departments that collect material revenues from taxes, duties, fines and penalties, on behalf of the Consolidated Fund, to prepare a stand-alone Trust Statement that specifically reports on the financial activities relating to such collections.

HMCS, as the Executive Agency of the Ministry of Justice responsible for collecting fines and financial penalties imposed by the criminal justice system, is therefore preparing a stand-alone Trust Statement for 2010-11 that should be read in conjunction with the HMCS Annual Report and Accounts.

HM Treasury's Accounts Direction 2010-11 requires that the Trust Statement be laid before Parliament at the same time as HMCS's Annual Report and Accounts. In 2010-11, HM Treasury has agreed that the Trust Statement can be laid separately from HMCS's Annual Report and Accounts. The Trust Statement lay date is therefore scheduled post the signing date of HMCS's Annual Report and Accounts.

The main reporting requirements of the Trust Statement are set out in Chapter 13 of the Government Financial Reporting Manual (FRoM). HMCS management has reviewed these requirements and has determined that the preparation of the Trust Statement does not have a material impact on the HMCS Annual Report and Accounts.

Reference is made throughout the notes to the Accounts in respect of key balances reported in the Trust Statement.

Early adoption of new accounting standards

HMCS did not early adopt any new accounting standards during the year.

New accounting standards to be adopted

IFRS 9 – Financial instruments

The IASB intends that IFRS 9 will replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. As a first instalment, the chapters on classification, measurement and financial liabilities have been issued. Later instalments will cover financial liabilities and hedge accounting. IFRS 9 simplifies the classification and measurement of financial assets, removing the numerous categories of financial asset specified in IAS 39, resulting in one impairment method. The new standard is applicable for accounting periods beginning on or after 1 January 2013 and is not expected to have a material impact on HMCS.

IFRS 13 – Fair value measurement

The IASB issued IFRS 13 in May 2011 to promote consistency in respect of measuring fair value across numerous IFRSs. It establishes a single source of guidance for all fair value measurements, clarifies the definition of fair value (and related guidance) and enhances disclosures about fair value measurements. The new standard is applicable for accounting periods beginning on or after 1 January 2013 and is not expected to have a material impact on HMCS.

2 Critical accounting estimates and judgements

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.

Critical accounting estimates and assumptions

HMCS 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.

Valuation of property and equipment

Land and buildings (including dwellings) comprise mainly court facilities. Land and buildings are shown at fair value, based on professional valuations. The Valuation Office Agency carries out the valuations in accordance with the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual, known as the “Red Book”.

The majority of buildings are valued at depreciated replacement cost to a modern equivalent basis. All other buildings are measured at fair value determined from market-based evidence. The value of HMCS’s land and buildings fluctuates with changes in construction costs and the current market value of land and buildings. The accounting policy for land and buildings is set out in note 1 and information on the land and buildings is set out in note 9.

Provision for pension transfer deficit

The present value of the pension transfer deficit obligations depends on a number of factors that are determined on an actuarial basis and the value of the underlying assets to be transferred to the Principal Civil Service Pension Scheme. The assets to be transferred consist of gilts, bonds, equities, cash and property. Elements of the actual liability to be assumed by HMCS will therefore continue to be subject to uncertainty, as a result of a number of factors. The accounting policy for pension transfer deficit is set out in note 1 and further information on the pension transfer deficit is set out in note 17.1.

Critical judgements in applying HMCS’s accounting policies

Lease accounting

Judgement is required in the initial classification of leases as either operating leases or finance leases. Where a lease is taken out for land and buildings combined, both the building and land elements may be capitalised as separate finance leases if they meet the criteria for a finance lease. If the contracted lease payments are not split between land and buildings in the lease contract, the split is made based on the market values of the land and buildings at the inception of the lease. The accounting policy for leases is set out in note 1.

3 Segmental analysis

Segment information

HMCS is organised for management purposes into six Regions, HMCS Wales and the Royal Courts of Justice Group (RCJG).

For financial reporting purposes, the segment reporting format is determined based on the way in which the Chief Operating Decision Maker monitors the operating results of segments for the purpose of making decisions and allocating resources.

HMCS's reportable operating segments are as follows:

- London Region;
- North East Region;
- South East Region;
- North West Region;
- Midlands Region;
- South West Region;
- HMCS Wales; and
- Royal Courts of Justice Group.

The operating segment's net costs of operations are measured on the same basis as the corresponding amounts reported in the financial statements. There were no inter-segment transactions in the year (2009-10: nil).

Net costs

The services from which the reportable operating segments incur costs are detailed in note 1.

The financial information evaluated by the Chief Operating Decision Maker (for HMCS the Chief Operating Decision Maker is the Chief Executive and Accounting Officer) in deciding how to allocate resources and in assessing performance is presented in the tables below.

The following table presents net costs by reportable operating segment for the year:

	2010-11	2009-10 restated
	£000	£000
London Region	(157,842)	(159,114)
North East Region	(108,963)	(113,184)
South East Region	(134,487)	(140,104)
North West Region	(114,235)	(119,372)
Midlands Region	(129,169)	(133,021)
South West Region	(79,618)	(85,352)
HMCS Wales	(45,523)	(49,069)
Royal Courts of Justice Group	(56,161)	(56,504)
Net segment costs	(825,998)	(855,720)
Other amounts*	(338,713)	(232,678)
Net costs	(1,164,711)	(1,088,398)

*Other amounts of £338.7m (2009-10: £232.7m) are attributable to net central costs not allocated to identifiable segments. The change between years is primarily due to the movement in the provision for pension transfer deficit. See note 17.1 for further details.

4 Fees and charges

HMCS is required, in accordance with HM Treasury's Managing Public Money, to disclose performance results for the areas of its activities where fees and charges are made. The following information is provided for Fees and Charges purposes and not for IFRS 8 purposes.

Only civil business has a system of court fees in place to cover its cost. The policy and financial objective is to recover the full cost of the processes involved less the cost of funding fee remissions. The system of fee remissions exists to ensure that individuals are not denied access to the courts if they genuinely cannot afford the fee.

HMCS reports on the civil business segment against its four constituent business streams: family; civil (higher courts); non-contentious probate and civil (magistrates' courts). At the most recent review of government spending, the Spending Review 2010 (SR10), the Ministry of Justice confirmed that it remains committed to delivering a simpler and more sustainable fees regime that delivers full cost recovery for civil, family and administrative justice.

	Gross fee revenue	Revenue foregone via REMEX	Net fee revenue	Costs	Net fee revenue /(costs)	Gross fee revenue /(costs)	Fee recovery actual percentage	Fee recovery target percentage
	£000	£000	£000	£000	£000 (Notes 1,2)	£000	% (Note 3)	%
Civil business								
Family	117,597	(16,644)	100,953	(235,873)	(134,920)	(118,276)	50	100
Civil (higher courts) (Note 4)	338,564	(11,000)	327,564	(342,129)	(14,565)	(3,565)	99	100
Probate	16,715	(14)	16,701	(14,482)	2,219	2,233	115	100
Civil (magistrates' courts)	18,829	(135)	18,694	(20,019)	(1,325)	(1,190)	94	100
Total civil business	491,705	(27,793)	463,912	(612,503)	(148,591)	(120,798)	80	100
Total civil business 2009-10	507,092	(27,853)	479,239	(619,004)	(139,765)	(111,912)	82	100

Notes:

- 1 The costs above include judicial costs borne directly by the Consolidated Fund and a notional cost for insurance.
- 2 The total resource spend for HMCS modernisation of civil and family IT systems is included.
- 3 The fee recovery target is calculated using gross income against expenditure; this complies with HM Treasury's Managing Public Money guidance of setting fees 'at cost' Annex 6.2.
- 4 Civil (higher courts) includes Court of Protection.

HMCS has recognised revenue of £144.0m (2009-10: £133.2m) and expenses of £1,160.1m (2009-10: £1,081.8m) related to its criminal and other business activities.

The Ministry of Justice introduced fee changes to family fees on 1 September 2010. The increases were based on the rate of inflation using the Retail Price Index (RPI) since the date of the last increase, with the majority of fees increased based on the rate of inflation since 2006 up to March 2010 (14.12%). The modest increase will provide an effective interim measure to reduce the family fee shortfall until the outcome of the family justice reforms and other major changes are known.

The current fees orders are:

- **The Civil Proceedings Fees (Amendment) Order 2009 [1498]** which amends The Civil Proceedings Fees (Amendment) Order 2008 [no 2853] and The Civil Proceedings Fees Order 2008 No.1053 (L.5);
- **The Family Proceedings Fees (Amendment) Order 2010 [1916]** which amends The Family Proceedings Fees (Amendment) Order 2009 [1499], The Family Proceedings Fees (Amendment) Order 2008 [no 2856] and The Family Proceedings Fees Order 2008 No.1054 (L.6);
- **The Non – Contentious Probate Fees (Amendment) Order 2009 [1497]** which amends The Non-Contentious Probate Fees (Amendment) Order 2008 [no 2854] and The Non – Contentious Fees Order 2004 No.3120 (L.22); and
- **The Magistrates’ Courts Fees (Amendment No 2) Order 2010 [1917]** which amends The Magistrates’ Courts Fees (Amendment) Order 2010 [731], The Magistrates’ Courts Fees (Amendment) Order 2009 [1496], The Magistrates’ Courts Fees (Amendment) Order 2008 [2855] and The Magistrates’ Courts Fees Order 2008 No.1052 (L.4).

5 Administration and programme costs

Of the total net operating costs shown in the Statement of Comprehensive Net Expenditure, £15.3m (2009-10: £15.3m) are classified as administration costs according to HM Treasury budgetary requirements; all other costs are programme costs.

6 Revenue

	2010-11	2009-10
	£000	£000
Fee revenue	463,912	479,239
Fine revenue	103,618	94,848
Rental revenue	917	1,192
Miscellaneous revenue	39,474	37,141
Total revenue	607,921	612,420

Fee revenue

Fee revenue comprises amounts received from the four business streams as shown in note 4.

Fine revenue

HMCS is entitled to retain elements of fines collected as revenue. Fine revenue consists of warrant enforcement revenue, Courts Act revenue, fine incentive revenue and asset recovery revenue. Warrant enforcement revenue contributed £66.6m (2009-10: £66.6m); fine incentive revenue contributed £18.3m (2009-10: £10.6m); asset recovery revenue contributed £11.8m (2009-10: £10.7m) and £6.9m (2009-10: £6.9m) of Courts Act revenue was received toward the implementation of initiatives related to the national rollout of the Courts Act 2003.

Further information in respect of fine collection activities can be found in the Trust Statement.

Rental revenue

Rental revenue comprises investment property rental, sub-letting and other rental paid by occupiers of the HMCS estate.

Miscellaneous revenue

Miscellaneous revenue included £0.8m (2009-10: £1.1m) from wider market initiatives; £4.7m (2009-10: £5.9m) from safety camera partnership revenue; bailiff fees of £18.5m (2009-10: £14.4m); Legal Services Commission service charges of £12.1m (2009-10: £10.8m); and other revenue of £3.4m (2009-10: £4.9m).

7 Staff and judiciary costs and numbers

Staff costs and numbers are separated between those for employees of HMCS and those for members of the judiciary.

	Notes	2010-11	2009-10
		£000	£000
Staff costs	7.1	553,315	556,061
Judicial costs	7.2	291,497	290,014
Total staff and judicial costs		844,812	846,075

7.1 Staff costs and numbers

	2010-11	2009-10
	£000	£000
Wages and salaries	437,856	453,412
Social security costs	28,552	29,924
Employer's pension contributions	72,571	73,820
Voluntary early departures	15,285	-
	554,264	557,156
Add: inward secondments	955	1,066
	555,219	558,222
Less: recoveries in respect of outward secondments	(1,904)	(2,161)
Total staff costs	553,315	556,061

In December 2010, the Ministry of Justice offered a Voluntary Early Departure (VED) scheme to selected HMCS employees. The terms of the scheme offered were in accordance with the Civil Service Compensation scheme introduced by the government in December 2010. The VED expense above covers amounts paid to individuals who accepted the offer of voluntary exit and who were approved to leave during 2010-11. It includes payments in lieu of notice and compensation in lieu of notice amounts where relevant. In line with the terms of the Civil service Compensation scheme, no ex-gratia amounts were paid to individuals who exited under the VED scheme.

There were no compulsory redundancies during the year.

A summary of the VED exits is shown below. As the VED scheme commenced in 2010-11, there are no prior year comparatives.

Exit package cost*	Number of compulsory redundancies	Number of voluntary departures agreed	Total number of exit packages by cost
<£10,000	-	4	4
£10,000-£25,000	-	32	32
£25,000-£50,000	-	80	80
£50,000-£100,000	-	91	91
£100,000-£150,000	-	25	25
£150,000-£200,000	-	9	9
£200,000-£250,000	-	1	1
£250,000-£300,000	-	1	1
Total number of exit packages by type	-	243	243
Total resource cost (£000)	-	15,285	15,285

*These costs include payments in lieu of notice and compensation in lieu of notice amounts where relevant. No ex-gratia amounts were paid to individuals who exited under the VED scheme.

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

The average number of full-time equivalent (FTE) staff employed during the year, including Board members and excluding agency and contract staff, was:

	2010-11	2009-10
	Average FTEs	Average FTEs
HMCS HQ	526	552
London Region	2,789	2,880
North East Region	2,522	2,612
South East Region	2,550	2,700
North West Region	2,468	2,578
Midlands Region	2,808	2,986
South West Region	1,706	1,830
HMCS Wales	965	1,015
RCJ Group	1,104	1,138
Total staff	17,438	18,291

In addition to the average number of full-time equivalent (FTE) staff employed detailed above, HMCS paid 272 (2009-10: 338) FTE agency and contract staff.

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme, which prepares its own accounts, but for which HMCS is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as of 31 March 2007. Details can be found in the resource accounts of the Cabinet Office Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2010-11, employer's contributions of £72.6m (2009-10: £73.8m), were payable to the PCSPS at one of four rates in the range of 16.7% to 24.3% of pensionable pay, based on salary bands. Employer's contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Pension benefits are provided through PCSPS arrangements. From 1 October 2002, civil servants may be in one of three statutory-based 'final salary' defined benefit schemes: classic, premium and classic plus. The schemes are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of the premium scheme or joining a good quality 'money purchase' stakeholder based arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for the classic scheme and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable earnings for each year of service; additionally, a lump sum equivalent to three years' pension is payable on retirement. Benefits in premium accrue at the rate of 1/60th of final pensionable earnings for each year of service; there is no automatic lump sum but members may commute some of their pension to provide a lump sum. Classic plus is a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5%, depending on the age of the member, into a stakeholder pension product chosen by the employee. The employee does not have to contribute, but where employees do make contributions the employer will match these up to a limit of 3% of pensionable salary in addition to the employer's basic contribution. Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

7.2 Judiciary costs and numbers

Members of the judiciary are independent of HMCS. Their payroll costs are met either from the consolidated fund, in the case of senior judiciary, or directly by HMCS for other judiciary; all costs are included within HMCS's Accounts.

	2010-11			2009-10		
	Senior judicial salaries	Other judicial salaries	Total	Senior judicial salaries	Other judicial salaries	Total
	£000	£000	£000	£000	£000	£000
Wages and salaries	128,461	81,168	209,629	129,403	78,789	208,192
Social security costs	14,742	9,194	23,936	14,852	9,052	23,904
Employer's pensions contribution	41,238	16,694	57,932	41,511	16,407	57,918
Total payroll costs of the judiciary	184,441	107,056	291,497	185,766	104,248	290,014

HMCS met the salary costs of 509 (2009-10: 498) full-time equivalent (FTE) Judges. HMCS also funded an additional 57,076 fee paid days (2009-10: 55,351 fee paid days). The salary costs of a further 984 members (2009-10: 982 members) of the senior judiciary were met from the consolidated fund.

The judicial superannuation scheme is an unfunded multi-employer defined benefit scheme, which prepares its own accounts, but for which HMCS is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as of 31 March 2009. Details can be found in the resource accounts of the JPS at www.official-documents.co.uk.

Judicial pensions are paid out of the consolidated fund where the judicial office holder's salary was paid from that fund, or the JPS where the salary has been paid from the department's supply estimate. Superannuation has been included for judicial salaries using a rate of 32.15%.

The benefits payable are governed by the provisions of either the Judicial Pensions Act 1981 for those judicial office holders appointed before 31 March 1995, or the Judicial Pensions and Retirement Act 1993 for those newly appointed or appointed to a different judicial office on or after that date.

8 Other administrative costs

8.1 Other operating costs

Other operating costs consist of the following for the year:

	2010-11	2009-10 restated
	£000	£000
Operating costs		
Accommodation, maintenance and utilities	206,707	232,729
Juror costs	42,813	42,063
Service charges	29,495	31,171
Communications, office supplies and services	31,448	35,375
Contracted service costs	29,905	30,582
IT services	16,417	17,802
Consultancy costs	2,010	2,620
Other staff costs (including travel and subsistence)	8,794	22,304
Other judicial costs (including travel and subsistence)	29,812	32,494
Bank charges	3,887	3,178
Other costs	4,016	7,184
	405,304	457,502
Operating leases		
Property rental costs	47,250	45,032
Other expenditure	3,422	3,970
	50,672	49,002
Non-cash costs		
External auditors' remuneration – audit of the Accounts	398	415
External auditors' remuneration – IFRS transition	-	100
Net (profit)/loss on disposal of property and equipment	(90)	380
(Increase)/decrease in valuation of property and equipment	(51,635)	191,960
Impairment of property and equipment	63,679	-
Decrease in fair value of investment properties	239	740
Decrease in fair value of assets held for sale	75	231
Decrease/(increase) in fair value of intangible assets	292	(519)
Notional rent	1,783	1,988
Straight-line of operating lease payments	8,492	7,977
Operating lease prepayment - amortisation	4	5
Increase/(decrease) in provisions	178,045	(155,571)
Intra-departmental recharges	127,783	144,333
Decrease in accounts receivable impairment	(27)	(1,402)
	329,038	190,637
Total other operating costs	785,014	697,141

8.2 Finance costs

Finance costs consist of the following for the year:

	2010-11	2009-10 restated
	£000	£000
Interest on pension transfer deficit	9,968	20,553
Unwinding of discount on provisions	5,146	6,039
Local authority loan interest	2,268	2,685
Finance lease and private finance initiative interest	10,716	11,252
Total finance costs	28,098	40,529

9 Property and equipment

2010-11									
	Land excluding dwellings	Buildings excluding dwellings	Land for dwellings	Dwellings	Information Technology	Equipment	Furniture, fixtures and fittings	Assets under construction	Total
	Notes 9.1, 9.3, 9.4	Notes 9.1, 9.3, 9.4	Note 9.2	Note 9.2					
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Valuation or cost									
As of the beginning of the period	526,082	2,039,811	6,970	13,271	90,430	35,353	24,852	124,669	2,861,438
Assets introduced resulting from the formation of HMCS Note 9.3	-	-	-	-	-	-	-	-	-
Additions	1,530	3,375	-	-	1,397	3,996	2,398	127,134	139,830
Disposals	(320)	(502)	(330)	(607)	(104)	(652)	(43)	(330)	(2,888)
Revaluation	(3,972)	13,682	253	(1,462)	(2,812)	2,747	(1,115)	-	7,321
Impairment	(20,150)	(43,529)	-	-	-	-	-	-	(63,679)
Re-classification*	-	98,280	-	1,092	2,724	376	15	(109,383)	(6,896)
Assets reclassified to assets held for sale	(8,502)	(8,882)	-	-	-	-	-	-	(17,384)
Transfers to the Ministry of Justice	-	-	-	-	(418)	-	-	-	(418)
As of the end of the period	494,668	2,102,235	6,893	12,294	91,217	41,820	26,107	142,090	2,917,324
Depreciation									
As of the beginning of the period	-	-	-	-	71,922	18,095	10,437	-	100,454
Charged in year	316	81,041	11	783	11,416	5,334	2,302	-	101,203
Disposals	-	-	-	-	(89)	(586)	(15)	-	(690)
Revaluation	(316)	(81,041)	(11)	(783)	(2,158)	1,495	(440)	-	(83,254)
Impairment	-	-	-	-	-	-	-	-	-
Re-classification	-	-	-	-	-	-	-	-	-
Transfers to the Ministry of Justice	-	-	-	-	(303)	-	-	-	(303)
As of the end of the period	-	-	-	-	80,788	24,338	12,284	-	117,410
Net book value as of 31 March 2011	494,668	2,102,235	6,893	12,294	10,429	17,482	13,823	142,090	2,799,914

*During the year HMCS reclassified net £6.9m of Property and equipment to Intangible assets.

2009-10 restated									
	Land excluding dwellings	Buildings excluding dwellings	Land for dwellings	Dwellings	Information Technology	Equipment	Furniture, fixtures and fittings	Assets under construction	Total
	Notes 9.1, 9.3	Notes 9.1, 9.3	Note 9.2	Note 9.2					
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Valuation or cost									
As of the beginning of the period	509,404	2,276,681	5,285	12,235	79,470	29,816	22,329	131,051	3,066,271
Restatement*	35,629	-	1,725	-	-	-	-	-	37,354
As of the beginning of the period (restated)	545,033	2,276,681	7,010	12,235	79,470	29,816	22,329	131,051	3,103,625
Assets introduced resulting from the formation of HMCS Note 9.3	525	2,241	-	-	-	-	-	-	2,766
Additions	14,992	3,793	-	-	437	3,734	2,236	102,678	127,870
Disposals	-	(58)	-	-	(898)	(526)	(3)	(48)	(1,533)
Revaluation	(37,147)	(344,293)	(40)	599	11,326	642	290	-	(368,623)
Impairment	-	-	-	-	-	-	-	-	-
Reclassification	4,782	102,988	-	437	95	710	-	(109,012)	-
Assets reclassified to assets held for sale	(2,103)	(1,541)	-	-	-	-	-	-	(3,644)
Transfers from the Ministry of Justice	-	-	-	-	-	977	-	-	977
As of the end of the period	526,082	2,039,811	6,970	13,271	90,430	35,353	24,852	124,669	2,861,438
Depreciation									
As of the beginning of the period	-	-	-	-	51,473	12,836	8,152	-	72,461
Restatement*	-	-	-	-	-	-	-	-	-
As of the beginning of the period (restated)	-	-	-	-	51,473	12,836	8,152	-	72,461
Charged in year	404	93,029	12	312	13,970	5,375	2,193	-	115,295
Disposals	-	-	-	-	(770)	(414)	(1)	-	(1,185)
Revaluation	(404)	(93,029)	(12)	(312)	7,249	298	93	-	(86,117)
Impairment	-	-	-	-	-	-	-	-	-
Reclassification	-	-	-	-	-	-	-	-	-
Transfers from the Ministry of Justice	-	-	-	-	-	-	-	-	-
As of the end of the period	-	-	-	-	71,922	18,095	10,437	-	100,454
Net book value as of 31 March 2010	526,082	2,039,811	6,970	13,271	18,508	17,258	14,415	124,669	2,760,984

*2009-10 Property and equipment balances have been restated as a result of an amendment to IAS 17 'Leases'. Refer to Changes in accounting policy and disclosures for further information.

Notes:

- 9.1 Included under land and buildings excluding dwellings are PFI contract assets with a net book value of £193.1m (2009-10: £184.4m) and depreciation charged in year of £4.0m (2009-10: £4.6m); also finance lease assets with a net book value of £216.1m (2009-10: £197.3m) and depreciation charged in the year of £7.1m (2009-10: £7.5m).
- 9.2 Included under Land for dwellings are finance leases with a net book value of £2.1m (2009-10: £1.8m) and depreciation charged in the year of £0.01m (2009-10: £0.01m). Included under Dwellings are finance lease assets with a net book value of £4.5m (2009-10: £4.4m) and depreciation charged in the year of £0.5m (2009-10: £0.1m).
- 9.3 The assets introduced resulting from the formation of HMCS, shown within land and buildings excluding dwellings, represent none (2009-10: five) of the remaining properties which did not transfer to HMCS in 2005 as a result of the PTS "The Transfer of Property (Abolition of Magistrates' Courts Committees) Scheme 2005". In these cases the property transfers were declared invalid in a high court judgment in 2005. However the right to use these properties for magistrates' courts purposes is secured by the PTS. Subsequent negotiations with the owners of these properties have resulted in a valid transfer of title.

HMCS is seeking a negotiated valid transfer from the owners of three (2009-10: three) remaining properties valued at £2.6m (2009-10: £4.2m). Of these properties, two (2009-10: two) are recorded in the Statement of Financial Position for a value of £2.5m (2009-10: £4.0m) as a result of HMCS bearing the risks and rewards of ownership. During 2009-10 valid title was agreed for 10 of the properties in the Statement of Financial Position.

- 9.4 As part of an ongoing court rationalisation review, Ministers earmarked a total of 163 underutilised court buildings for closure (eight of which are classified as assets held for sale as of 31 March 2011) over the next three years. Given these courts are no longer expected to form part of HMCS's operational estate in the future, their valuation method has been altered from depreciated replacement cost to fair value less costs to sell determined from market-based evidence. As this change in valuation method indicates a permanent diminution in value, any impairment has been taken direct to the Statement of Comprehensive Net Expenditure, with the balance of any Revaluation Reserve taken to the General Fund.

The total court closure impairment for 2010-11 was £59.4m (2009-10: £nil).

10 Investment property

	2010-11	2009-10
	£000	£000
As of the beginning of the period	1,855	2,595
Decrease in value of investment property	(239)	(740)
Assets reclassified to assets held for sale (note 11)	(616)	-
As of the end of the period	1,000	1,855

Investment property rental revenue of £0.1m (2009-10: £0.1m) was recognised in the Statement of Comprehensive Net Expenditure.

HMCS leases surplus properties under various agreements which terminate between 2011 and 2012. These agreements do not include an extension option.

11 Assets held for sale

As part of an ongoing court rationalisation review, HMCS has committed to a plan to sell a number of surplus properties (land and buildings) that were previously used to provide court services. An active programme to locate a buyer and complete the sale of each property has commenced. Estate agents are actively marketing the properties. The properties are available for sale in their present condition and the sales are highly probable to occur within one year from the date of classification to Asset held for sale within the Statement of Financial Position.

A net loss on disposal of assets held for sale as of 1 April 2010 of £0.1m (a net profit as of 1 April 2009 of £0.1m) is included in net profit/(loss) on disposal of property and equipment within Other Operating Costs in the Statement of Comprehensive Net Expenditure.

	2010-11	2009-10
	£000	£000
As of the beginning of the period	4,103	3,055
Assets reclassified from property and equipment (note 9)	17,384	3,644
Assets reclassified from investment property (note 10)	616	-
Decrease in fair value of assets held for sale	(75)	(231)
Disposals	(1,776)	(2,365)
As of the end of the period	20,252	4,103

12

Intangible assets

	2010-11		
	Information technology	Assets under construction	Total
	£000	£000	£000
Valuation or cost			
As of the beginning of the period	17,162	54,487	71,649
Additions	-	8,941	8,941
Disposals	-	-	-
Revaluation	(753)	-	(753)
Reclassification*	65,314	(58,418)	6,896
Transfers from the Ministry of Justice	2,119	155	2,274
As of the end of the period	83,842	5,165	89,007
Amortisation			
As of the beginning of the period	4,253	-	4,253
Charged in year	13,505	-	13,505
Disposals	-	-	-
Revaluation	(129)	-	(129)
Reclassification*	-	-	-
Transfers from the Ministry of Justice	-	-	-
As of the end of the period	17,629	-	17,629
Net book value as of 31 March 2011	66,213	5,165	71,378

*During the year HMCS reclassified net £6.9m of Property and equipment to Intangible assets.

	2009-10		
	Information technology	Assets under construction	Total
	£000	£000	£000
Valuation or cost			
As of the beginning of the period	8,033	39,438	47,471
Additions	1,883	20,379	22,262
Disposals	-	-	-
Revaluation	1,916	-	1,916
Reclassification	5,330	(5,330)	-
Transfers from the Ministry of Justice	-	-	-
As of the end of the period	17,162	54,487	71,649
Amortisation			
As of the beginning of the period	2,162	-	2,162
Charged in year	1,778	-	1,778
Disposals	-	-	-
Revaluation	313	-	313
Reclassification	-	-	-
Transfers from the Ministry of Justice	-	-	-
As of the end of the period	4,253	-	4,253
Net book value as of 31 March 2010	12,909	54,487	67,396

Expenditure for intangible assets greater than HMCS's capitalisation threshold but not qualifying for capitalisation of £nil (2009-10: £nil) was recognised as an expense in the Statement of Comprehensive Net Expenditure.

13 Trade and other receivables

Amounts due within one year are as follows as of 31 March:

	2011	2010 restated
	£000	£000
Amounts due within one year:		
Trade debtors	4,865	12,807
Other debtors	37,763	3,070
VAT recoverable	17,823	9,363
Prepayments and accrued revenue	26,161	22,362
Intra-departmental debtors	159,365	48,893
Total amounts due within one year	245,977	96,495

Amounts due after one year are as follows as of 31 March:

	2011	2010
	£000	£000
Amounts due after one year:		
Other debtors	127	38,976
Prepayments	9	6
Total amounts due after one year	136	38,982

HMCS holds trade and other receivables for the following types of organisations as of 31 March:

	2011		2010	
	Amounts due within one year	Amounts due after one year	Amounts due within one year	Amounts due after one year
	£000	£000	£000	£000
Other central government bodies	181,964	-	73,354	-
Local authorities	902	-	3,909	-
NHS bodies	12	-	24	-
Public corporations and trading funds	225	-	385	-
Bodies external to government	62,874	136	18,823	38,982
Total trade and other receivables	245,977	136	96,495	38,982

14 Cash and cash equivalents

	2011	2010
	£000	£000
As of the beginning of the period	153,046	239,450
Net decrease in cash balances	(97,723)	(86,404)
As of the end of the period	55,323	153,046
The following balances as of 31 March were held at:		
Government Banking Service	57,095	153,316
Commercial banks	(1,951)	(683)
Cash in hand	130	375
Imprests	49	38
Total cash and cash equivalents	55,323	153,046

During the year, HMCS completed the transition of some of its banking arrangements from the Office of HM Paymaster General (OPG) to the Government Banking Service (GBS).

GBS accounts are maintained for Crown Courts, county courts and centralised functions. In addition, for GBS accounts, HMCS maintains commercial bank accounts for the magistrates' courts to deposit funds, which are then transmitted at regular intervals to the central account maintained with the GBS.

Included within the GBS balance above is £16.2m (2009-10: £22.6m) held as third party balances as shown in note 16.

Further information in respect of cash and cash equivalents related to the collection of fines and penalties can be found in the Trust Statement.

15 Notes to the Statement of Cash Flow

Summary of notional and non-cash costs are as follows for the year ended:

	2010-11	2009-10 restated
	£000	£000
Notional costs		
Consolidated fund judicial costs – wages and salaries	128,461	129,403
Consolidated fund judicial costs – social security costs	14,742	14,852
External auditor's remuneration	398	515
Notional rent	1,783	1,988
Departmental recharge	127,783	144,333
Notional costs	273,167	291,091
Non-cash costs		
Net (profit)/loss on disposal of property and equipment	(90)	380
(Increase)/decrease in valuation of property and equipment	(51,635)	191,960
Impairment of property and equipment	63,679	-
Reduction/(increase) in fair value of intangible assets	292	(519)
Reduction in fair value of assets held for sale	75	231
Operating lease prepayment amortisation	4	5
Reduction in fair value of investment property	239	740
Straight-line of operating lease payments	8,492	7,977
Movement in provisions	178,045	(155,571)
Movement in accounts receivable impairment	(27)	(1,402)
Depreciation	101,203	115,295
Amortisation	13,505	1,778
Non-cash costs	313,782	160,874
Total notional and non-cash costs	586,949	451,965

In addition to the costs in the table above, HMCS incurred a non-cash interest expense of £15.1m (2009-10: £26.6m). These expenses are included in the interest line on the face of the Statement of Cash Flow.

16 Trade and other payables

Amounts due within one year are as follows as of 31 March:

	2011	2010
	£000	£000
Amounts due within one year:		
Taxation and social security	13,193	13,424
Trade creditors	11,275	6,792
Other creditors	13,605	15,000
Holiday accrual	12,143	11,230
Voluntary early departures	15,285	-
Accruals and deferred revenue	103,685	102,751
Obligations under finance leases	79	74
Creditor for capital value of PFI contracts	8,926	8,926
Cash balances payable to other government departments	28,520	21,775
Third party balances	16,151	22,636
Intra-departmental creditors	119,362	108,522
Total amounts due within one year	342,224	311,130

The holiday accrual represents annual leave entitlements earned by individuals as of the reporting date that will be utilised in the next financial year. The holiday accrual is measured at the amount of the benefit provided to members of HMCS and the judiciary.

Further information in respect of Trade and other payables related to the fines and penalties collection activities can be found in the Trust Statement.

Amounts due after more than one year are as follows as of 31 March:

	2011	2010 restated
	£000	£000
Amounts due after one year:		
Creditor for capital value of PFI contracts	149,014	157,939
Other creditors	86,259	81,050
Obligations under finance leases	17,182	17,095
Total amounts due after one year	252,455	256,084

HMCS holds trade and other payables balances for the following types of organisations as of 31 March:

	2011		2010 restated	
	Amounts due within one year	Amounts due after one year	Amounts due within one year	Amounts due after one year
	£000	£000	£000	£000
Other central government bodies	174,279	-	157,044	-
Local authorities	6,571	42,113	7,076	45,406
NHS bodies	17	-	-	-
Public corporations and trading funds	120	-	164	-
Bodies external to government	161,237	210,342	146,846	210,678
Total trade and other payables	342,224	252,455	311,130	256,084

17 Provisions for liabilities and charges

	Notes	2011	2010
		£000	£000
Provisions for pensions transfer deficit	17.1	344,000	178,000
Provision for early departure costs	17.2	108,621	117,667
Other provisions	17.3	4,392	3,810
Total provisions		457,013	299,477

The liabilities fall due as follows as of 31 March:

	2011	2010
	£000	£000
One year	31,914	32,030
Two to five years	121,761	117,210
More than five years	303,338	150,237
Total provisions	457,013	299,477

17.1 Provisions for pensions transfer deficit

	2010-11	2009-10
	£000	£000
As of the beginning of the period	178,000	367,018
Increase/(decrease) in provisions	182,232	(183,571)
Interest on pension transfer deficit	9,968	20,553
Utilised in year	(26,200)	(26,000)
As of the end of the period	344,000	178,000

The Courts Act 2003 legislated for the transfer of magistrates' courts functions and responsibilities to HMCS. As a result, approximately 8,000 employees on the local magistrates' court committees' contracts of employment transferred to HMCS and required changes in their pension arrangements. The transferred staff became members

of the Principal Civil Service Pension Scheme (PCSPS) on 1 April 2005. They were given options to transfer their accrued benefits to the PCSPS.

Approximately 6,000 staff opted to transfer their accrued service. The remainder opted to continue to hold their accrued pension benefits within the relevant Local Government Pension Scheme (LGPS). The LGPS does not operate as a single fund but is a series of funds administered locally.

All 8,000 transferred employees will, upon retirement, receive their pension in line with the agreed PCSPS benefits relating to the period from 1 April 2005 to the date of retirement. The 6,000 employees who opted to transfer their accrued pension benefits will receive their total pension in line with the agreed PCSPS benefits.

The PCSPS therefore, needed to know the accrued pension entitlement for the 6,000 transferred staff. An agreement was reached between HMCS and the Cabinet Office for HMCS to pay an actuarially calculated amount to reflect the liability for the PCSPS arising from the individuals' periods of local government service transferred; plus/less an amount to meet any deficits/surpluses incurred as a result of the net asset/liability position for the individuals in the Local Government Pension Scheme (LGPS).

It was agreed that the past service pension liability would be calculated as at 1 April 2005 by the PCSPS' actuary. The Government Actuary's Department (GAD) has estimated the pension liability as at 1 April 2005 of those employees who have opted to transfer service to the PCSPS. This calculation was based upon a number of fixed actuarial assumptions which have been agreed by GAD, the Cabinet Office and HMCS. HM Treasury approval for this arrangement has been requested but has not yet been formally received.

There are two key sets of assumptions which determine the liabilities:

- 1 The agreements with the LGPS schemes – signed by the actuaries and the LGPS schemes which specify the funds transferrable, and in the case of negative shares of funds, the payments to LGPS schemes; and
- 2 The assumptions agreed with PCSPS for calculating the PCSPS liabilities.

Following the employees' transfer from the administering local authority to PCSPS, the LGPS are required to identify the underlying net funding position of the transferred employees. If a net deficit results due to the historic under-funding of the LGPS, then HMCS will be liable for the LGPS deficit in relation to the employees. However, if the LGPS had sufficient funds to cover retained liabilities, then the relevant portion of the net asset will be transferred to the PCSPS.

As part of the agreement, HMCS agreed to fund the net deficit incurred by the PCSPS over a 10 year period subject to sufficient funding, including the interest implications arising from this approach. The provision made at inception in the 2005-06 HMCS accounts was for £268.0m.

The value of the transferred pension asset or liability from the individual LGPS to PCSPS is calculated on each scheme's value as at the date of transfer and not as at 1 April 2005. Therefore, the transferred asset or liability is subject to uncertainty resulting from changes to the LGPS and market conditions up to the point that the transfer is finalised.

As of 31 March 2011, final transfer values have been agreed for 32 of the 41 LGPS funds. For those funds where positive transfer values were agreed, one-off payments have been made to the PCSPS for the value of the positive transfer amounts. For those funds where negative transfer values were agreed, a series of 10 annual payments, equal to the value of the agreed negative transfer amounts, will be made to the applicable LGPS funds.

As of 31 March, the LGPS were at the following stages:

	2011	2010
Funds crystallised – positive transfer values agreed	5	-
Funds crystallised – negative transfer values agreed	27	-
Initial funding position provided, progressing to final agreement	5	34
Estimate of funding position to be provided	4	7
Total number of schemes	41	41

In addition to the liabilities crystallised by the transfer at 1 April 2005, liabilities also transferred to HMCS concerning two smaller prior staff transfers. Allowance for these liabilities has been included in the provisions above.

As of 31 March 2011, the net liability due to the PCSPS or the LGPS funds in relation to the 32 crystallised funds has been agreed. An estimate has been made by GAD for the nine funds yet to be finalised on the basis of estimates provided by the LGPS funds or where these are not available, by calculating an estimate with reference to the positions of similar LGPS that have already crystallised.

Management has reviewed the actual liability for the funds where final transfer values have been agreed, along with the GAD estimate for those funds yet to crystallise. Management has made the following assumptions in determining that the provision for the pension transfer deficit of £344.0m is appropriate:

- Interest is payable at an assumed rate of 5.6%. As of 31 March 2011, a total of £66.5m of interest is included in the above provision (2009-10: £56.6m);
- HM Treasury will approve the fixed assumptions made at 1 April 2005; and
- The remaining nine LGPS funds will show surpluses/deficits in line with estimates provided by the LGPS funds, or where these are unavailable, the average position of similar funds.

17.2 Provision for early departure costs

	2010-11	2009-10
	£000	£000
As of the beginning of the period	117,667	90,373
(Decrease)/increase in provision	(4,939)	28,050
Unwinding of discount	5,146	6,039
Utilised in year	(9,253)	(6,795)
As of the end of the period	108,621	117,667

Provision has been made for the costs of unfunded early retirement benefits of certain magistrates' court staff. The provision represents the present value of the costs of the benefit payable to staff on Crombie and local government early retirement terms.

Also included in early departure costs is a provision for unfunded early retirement costs of HMCS staff in the PCSPS. Provision has also been made for costs related to the reorganisation and modernisation programme.

The provision has been calculated by discounting the estimated future cash flows using the nominal HM Treasury rate of 5.6% (2009-10: 4.6%).

The provision for early departure costs recorded above is separate to the Voluntary Early Departure (VED) scheme costs recorded in note 7.1.

17.3 Other provisions

	2010-11	2009-10
	£000	£000
As of the beginning of the period	3,810	4,184
Increase/(decrease) in provisions	752	(50)
Utilised in year	(170)	(324)
As of the end of the period	4,392	3,810

18 Capital commitments

Contracted capital commitments not yet incurred as of 31 March are as follows:

	2011	2010
	£000	£000
Property developments	41,362	50,854
Intangible assets	1,831	3,619
Total capital commitments	43,193	54,473

19 Operating leases

HMCS leases various land and buildings under non-cancellable operating lease agreements. The land and buildings comprise mainly court facilities and have lease terms ranging from 3 to 125 years. The operating leases do not have purchase options, although some have escalation clauses and terms of renewal. Renewals are negotiated with the lessor in accordance with the provisions of the individual lease agreements.

HMCS also leases various equipment and cars under non-cancellable operating lease agreements. The lease terms are between 1 and 14 years.

The non-cancellable operating lease expenditure charged to the Statement of Comprehensive Net Expenditure during the year is disclosed in note 8.

The total future minimum lease payments under non-cancellable operating leases for each of the following periods are as follows as of 31 March:

	2011			2010 restated		
	Land and buildings	Other	Total	Land and buildings	Other	Total
	£000	£000	£000	£000	£000	£000
Not later than one year	55,142	911	56,053	47,610	1,104	48,714
Later than one year but not more than five years	210,901	766	211,667	181,952	847	182,799
Later than five years	985,579	-	985,579	828,988	-	828,988
Total commitments under operating leases	1,251,622	1,677	1,253,299	1,058,550	1,951	1,060,501

The minimum lease payments above are determined from the relevant lease agreements. The lease payments do not reflect possible increases as a result of market based reviews.

HMCS earned sub-lease revenue of £0.1m (2009-10: £0.1m).

The total minimum payments to be received under non-cancellable subleases is £0.1m (2009-10: £0.1m).

The prepaid operating lease balances under non-cancellable operating leases for each of the following periods are as follows:

	2010-11	2009-10 restated
	£000	£000
As of the beginning of the period	154	159
Additions	-	-
Amortisation	(4)	(5)
Reclassifications	-	-
As of the end of the period	150	154

20 Finance leases

HMCS leases various buildings under non-cancellable finance lease agreements.

The total future minimum lease payments under non-cancellable finance leases for each of the following periods are as follows as of 31 March:

	2011	2010 restated
	£000	£000
Not later than one year	913	901
Later than one year but not more than five years	3,826	3,756
Later than five years	162,812	163,796
Minimum future lease payments	167,551	168,453
Future interest expense	(150,290)	(151,284)
Present value of minimum lease payments	17,261	17,169

HMCS leases various buildings under non-cancellable finance lease agreements. The buildings comprise mainly court facilities and have lease terms ranging from 15 to 999 years. The finance leases do not have purchase options, although some have escalation clauses and terms of renewal. Renewals are negotiated with the lessor in accordance with the provisions of the individual lease agreements.

HMCS earned sub-lease revenue of £0.1m (2009-10: £0.1m).

The total minimum payments to be received under non-cancellable subleases is £0.1m (2009-10: £0.1m).

21 Private finance initiative

HMCS has entered into eight private finance initiative (PFI) service concession arrangements. A summary of each PFI contract is set out below:

Project name	Contract start date	Duration (years)	On/off Statement of Financial Position	Initial value of capital (£m)	Description
Exeter	November 2002	30	On	20.1	Provision of a courthouse comprising four criminal courts, one civil court and four District Judge hearing rooms. At the end of the contract term the building will revert to HMCS at no cost.
East Anglia	October 2002	25	On	34.5	Provision of Crown Court centres in Ipswich and Cambridge. Ipswich consists of five criminal courtrooms; Cambridge consists of three criminal courtrooms. At the end of the contract term the buildings in Ipswich and Cambridge will revert to HMCS at no cost.
Sheffield	November 2002	25	On	7.7	Provision of a Family Hearing Centre in Sheffield. At the end of the contract term HMCS has the option of acquiring the under lease at the lower of its open market value or £2.0m.
Derbyshire Magistrates' Courts	August 2001	27	On	29.5	Provision of serviced accommodation for magistrates' courts at New Mills, Chesterfield and Derby. The contract term can be extended (subject to agreement of mutually acceptable terms) by up to five years.
Hereford & Worcester Magistrates' Courts	March 2000	25	On	30.6	Provision of serviced accommodation for magistrates' courts at Bromsgrove, Kidderminster, Worcester and Redditch. The contract term can be extended for another 10 years.
Manchester Magistrates' Court	March 2001	25	On	32.9	Provision of an 18-courtroom courthouse.
Humberside Magistrates' Court	March 2000	25	On	21.6	Provision of serviced magistrates' courthouses in Hull, Beverley and Bridlington. On expiry, HMCS has the option of taking the assets back for a nominal amount of £3.0m.
Avon & Somerset Magistrates' Court	August 2004	27	On	46.6	Provision of serviced accommodation for magistrates' courts and offices in Bristol, Weston-Super-Mare and Flax Bourton.

The total future minimum payments under non-cancellable PFI arrangements for each of the following periods are as follows as of 31 March:

	2011	2010
	£000	£000
Not later than one year	18,113	18,648
Later than one year but not more than five years	67,092	69,235
Later than five years	159,511	175,480
Minimum future lease payments	244,716	263,363
Future interest expense	(86,776)	(96,498)
Present value of minimum lease payments	157,940	166,865

HMCS also pays an annual charge for the receipt of services of £18.8m (2009-10: £18.2m). Future annual payments are indexed, generally by 2% per annum, but may vary in accordance with formulae based on operating requirements.

22 Contingent liabilities and assets

Contingent liabilities

HMCS is involved in a number of legal cases dealing with ex gratia, compensation and other claims. The estimated cost of settlement for HMCS is £7.8m (2009-10: £7.6m). In addition, as part of the court closure initiative, HMCS may terminate a number of leases prior to their expiry dates. The expected cost of these terminations, should they occur, is £1.7m (2009-10: £nil).

As detailed in note 9.3, the result of the July 2005 High Court challenge meant that HMCS has not been able to gain control of a number of properties intended to come within the 31 March 2005 Property Transfer Scheme. HMCS faces a contingent accommodation liability for the properties that it is yet to control.

If HMCS is not able to effect a transfer of ownership and control of these properties it faces potential accommodation obligations to the parties who ultimately own the property rights and will control the underlying economic benefits. Based on the rental value of the properties as of 31 March 2007, it is estimated that HMCS could be exposed to additional costs of up to £0.3m per annum (2009-10: £0.3m) with a total maximum contingent liability since 1 April 2005 of £2.0m (2009-10: £1.6m).

Contingent assets

The Secretary of State for Justice is Claimant in High Court civil proceedings in which it is seeking to recover up to £22.8m (excluding interest and costs) in relation to property transactions (concerning First Avenue House, High Holborn, London) in 2002 and 2004. A five week trial has been listed in 2012.

23 Related party transactions

HMCS is an Executive Agency of the Ministry of Justice, which is regarded as a related party. During the year, HMCS has had material transactions with the Ministry of Justice and other entities for which the Ministry of Justice is regarded as the parent entity. The other entities are as follows:

- Tribunals Service;
- Wales Office;

- National Offender Management Service (NOMS);
- Office of the Public Guardian; and
- Legal Services Commission.

In addition, HMCS has had material transactions with the following other government departments and other central government bodies:

- Department for Work and Pensions (DWP);
- City of London;
- Hampshire County Council;
- HM Revenue & Customs (HMRC);
- Home Office;
- The Insolvency Service;
- Warwickshire Police Authority;
- Birmingham City Council;
- HM Prison Service; and
- The Treasury Solicitor's Department.

Further information in respect of related party transactions related to fines and penalties collection activities can be found in the Trust Statement.

Registry Trust Limited is a private company limited by guarantee with no share capital. It maintains the Register of County Court judgments on behalf of the Lord Chancellor and the Secretary of State for Justice. Revenue received from the Registry Trust Limited in the year amounted to £0.6m (2009-10: £1.0m) with a total debtor balance due to HMCS as of 31 March 2011 of £0.1m (2009-10: £0.1m).

During both 2010-11 and 2009-10, no Board Members or other related parties have undertaken any material transactions with HMCS.

HMCS has a number of arrangements with the Ministry of Justice and its departments which are classified as intra-departmental recharges. These payments are for the use of assets and other services, and are expensed in the Statement of Comprehensive Net Expenditure each year as they are incurred. It is impractical to separate the payments reliably between those relating to assets, and those relating to other services. These arrangements contain no defined end date. The payments also include payments for non-lease elements in the arrangements.

24 Events after reporting period

Financial reporting

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.

Merger between HMCS and the Tribunals Service

Effective 1 April 2011, HMCS merged with the Tribunals Service to form HM Courts & Tribunals Service. The new entity is a partnership between the Lord Chancellor, the Lord Chief Justice and the Senior President of Tribunals and is responsible for the administration of the criminal, civil and family courts and tribunals in England and Wales, and non-devolved tribunals in Scotland and Northern Ireland. The previously separate

HMCS and Tribunals Service Boards have been replaced with a newly convened HM Courts & Tribunals Service Board.

The merger will be accounted for as a Machinery of Government change in the 2011-12 financial year.

Voluntary exits

Subsequent to 31 March 2011, there were individuals who accepted an offer of voluntary exit under the VED scheme detailed in note 7.1. Exit payments to these individuals (including payments in lieu of notice and compensation in lieu of notice where relevant) will be accounted for in the 2011-12 financial year.

In addition to the aforementioned voluntary exits, subsequent to 31 March 2011 the Ministry of Justice offered a second Voluntary Early Departure scheme to selected HM Courts & Tribunals Service employees. The terms of the second scheme offered were also in accordance with the Civil Service Compensation scheme introduced by the government in December 2010.

No ex-gratia amounts will be payable to any individuals who have chosen or choose to accept an early departure offer under either scheme.

25 Accountability

The following disclosures are included to comply with government accounting reporting requirements:

- There were 1,174 (2009-10: 1,734) cases of reported cash losses totalling £0.1m (2009-10: £0.3m). These primarily relate to instances where small discrepancies arise in the receipting of cash at court level;
- During the year, a total of £0.1m (2009-10: £0.9m) of debts were written-off as unrecoverable. These amounts had previously been recognised as an impairment expense in the Statement of Comprehensive Net Expenditure;
- There were 7,515 (2009-10: 14,816) cases totalling £1.5m (2009-10: £3.0m) where fees were remitted for individuals who were not in receipt of government means tested benefits. In these cases, HMCS has granted remission based on the Guidance for Administering the System of Fee Concession (EX160) published by the Ministry of Justice;
- During the year there were 1,858 (2009-10: 5,254) special payments, totalling £1.4m (2009-10: £4.8m). Special payments are those that go beyond administrative rules or for which there is no statutory cover or legal liability; and
- Interest paid under the Late Payment of Commercial Debts (Interest) Act 1988 was £nil (2009-10: £0.02m).

26 Financial instruments

IFRS 7 'Financial Instruments: Disclosures', requires disclosure of the role that financial instruments have had during the period in creating or changing risks an entity faces in carrying out its business.

As HMCS is funded via the Ministry of Justice, it is not exposed to the degrees of financial risk or market risk facing a business entity. Financial instruments also play a much more limited role in creating or changing risk than would be typical of the listed companies to which IFRS 7 primarily applies. HMCS has no powers to borrow or invest surplus funds and its financial assets and liabilities arise from day-to-day operational activities rather than being held to change the risk facing HMCS in undertaking activities.

Liquidity risk

HMCS is financed by funds made available from the government and is not therefore exposed to significant liquidity risk.

Credit risk

Credit risks arise from HMCS's financial assets, which comprise cash and cash equivalents, trade and other receivables and other financial assets. HMCS's exposure to credit risk arises from the potential default of a counterparty on their contractual obligations resulting in financial loss to HMCS.

Credit risk associated with HMCS's receivables is minimal as most debtor balances are with other government related bodies. Credit risk in relation to receivables is also monitored by management regularly by reviewing the ageing of receivables. The maximum loss HMCS is exposed to is the carrying value of its financial assets within the Statement of Financial Position.

Foreign currency risk

HMCS has no material foreign currency revenue or expenditure and is therefore not exposed to material foreign currency risk.

Financial assets

	Notes	2011	2010
		£000	£000
Cash and cash equivalents	14	55,323	153,046
Trade debtors	13	4,865	12,807
Other debtors	13	37,890	42,046
Accrued revenue	13	12,298	10,206
Intra-departmental debtors	13	159,365	48,893
		214,418	113,952
Total financial assets		269,741	266,998

Financial assets, other than Cash and cash equivalents, are classified as Trade and other receivables and measured at amortised cost.

Financial assets have the following maturity profile:

	Notes	2011	2010
		£000	£000
Total amounts due within one year		269,614	228,022
Total amounts due after one year		127	38,976
		269,741	266,998

Non-financial assets

Prepayments	13	13,872	12,162
VAT recoverable	13	17,823	9,363
Total non-financial assets		31,695	21,525

Financial liabilities

	Notes	2011	2010 restated
		£000	£000
Trade creditors	16	11,275	6,792
Other creditors		9,777	10,141
Accruals	16	98,913	97,902
Creditor for capital value of PFI contracts	16	157,940	166,865
Cash balances payable to other government departments	16	28,520	21,775
Third party balances	16	16,151	22,636
Intra-departmental creditors	16	119,362	108,522
Obligations under finance leases	16	17,261	17,169
Total financial liabilities		459,199	451,802

Financial liabilities are classified as Trade and other payables and are measured at amortised cost.

Financial liabilities have the following maturity profile:

	Notes	2011	2010 restated
		£000	£000
Total amounts due within one year		293,003	276,768
Total amounts due after one year		166,196	175,034
		459,199	451,802

Non-financial liabilities

Taxation and social security	16	13,193	13,424
Deferred revenue	16	4,772	4,849
Holiday accrual	16	12,143	11,230
Voluntary early departures	16	15,285	-
Long-term lease incentives		44,384	36,913
Local authority loans		45,703	48,996
Total non-financial liabilities		135,480	115,412

Fair values

The fair values of HMCS's financial assets and liabilities as of 31 March 2011 and 2010 approximate their book values.

ANNEXES

Annex A: Data sources and data quality

This annex gives brief details of data sources for the figures given in this report, along with a brief discussion on data quality. Further information can be found in 'Judicial and Court Statistics 2010' via the Ministry of Justice website at www.justice.gov.uk/publications/statistics-and-data/courts-and-sentencing/index.htm

County courts (non-family)

This information has been produced using the Management Information System (MIS), a data warehousing facility drawing data from court-based administrative systems. County court data in MIS has been sourced from the 'CaseMan' administrative system, used by court staff for case management purposes. This contains good quality information about the incidence and dates of major events in a case's progress through the court system. Statistical quality assurance procedures include the identification and removal of duplicate entries for the same event in a case, and checks that data have been collated for all courts to ensure completeness. However, the numbers of small claims hearings and trials are dependent on court staff entering correct hearing outcome codes onto the system.

Family courts

The data on the family courts was principally sourced from the county court administrative system FamilyMan (via MIS), used by court staff for case management purposes and containing good quality information about a case's progress through the family courts. Some data are also sourced from the OPT database. Statistical quality assurance procedures include the identification and removal of duplicate entries for the same case on the administrative systems, and checks that data have been collated for all courts to ensure completeness.

Crown Court

The data on the Crown Court has been sourced from the Crown Court administrative system CREST (via MIS), used by court staff for case management purposes. This contains good quality information about the incidence and dates of major events of each case's progress in the Crown Court. Statistical quality assurance procedures include the identification and removal of duplicate entries, checks of apparent anomalies and checks for completeness.

Magistrates' courts

The statistics on completed proceedings are sourced from the One Performance Truth (OPT) performance database, which was rolled out across magistrates' courts during 2007-2008 and is populated using information contained on the Libra Management Information System and manual data collection. This contains good quality information about magistrates' courts' caseloads. Data provided by the courts must be checked and verified by court staff before being submitted onto the OPT performance database. The centrally collated data are subject to further checks including the investigation of apparent anomalies in the data.

The statistics on the effectiveness of recorded trials and the enforcement of financial penalties are also sourced from the OPT performance database.

Data relating to Breached Community Penalties is collected by courts on an MS Excel based tracker system, and snapshot data is collated centrally. The spreadsheet contains

validations on key data, and further checks are completed centrally investigating anomalies in the data

Detailed information on magistrates' courts' timeliness is published on a quarterly basis by the Ministry of Justice. This data comes from the Time Intervals Survey, reports on which can be found on the Ministry of Justice website at:

www.justice.gov.uk/publications/statistics-and-data/courts-and-sentencing/magistrates-times.htm.

Annex B: Related documents and links

Her Majesty's Courts Service Framework Document

<http://webarchive.nationalarchives.gov.uk/20110218200720/http://www.hmcourts-service.gov.uk/cms/aboutus.htm>

HM Courts & Tribunals Service

www.justice.gov.uk/about/hmcts/index.htm

Jury service

www.direct.gov.uk/en/CrimeJusticeAndTheLaw/Juryservice/index.htm

Going to court as a victim or witness

www.direct.gov.uk/en/CrimeJusticeAndTheLaw/VictimsOfCrime/DG_070444

The Code of Practice for Victims of Crime

www.direct.gov.uk/en/CrimeJusticeAndTheLaw/Thejudicialsystem/DG_066863

Small claims

www.direct.gov.uk/en/MoneyTaxAndBenefits/ManagingDebt/Makingacourtclaimformoney/index.htm

Adoption

www.direct.gov.uk/en/Parents/Adoptionfosteringandchildrenincare/AdoptionAndFostering/index.htm

Judicial and court statistics

www.justice.gov.uk/publications/judicialandcourtstatistics.htm



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