

Department for Constitutional Affairs

Resource Accounts for the year ended 31 March 2004

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Chapter 20, Section 6

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Contents

Annual Report	1
Statement of Accounting Officers' Responsibilities	9
Statement on Internal Control	10
Certificate and Report of the Comptroller and Auditor General to the House of Commons	17
The Accounting Schedules:	
Schedule 1 – Summary of Resource Outturn	19
Schedule 2 – Operating Cost Statement	22
Schedule 3 – Balance Sheet	23
Schedule 4 – Cash Flow Statement	24
Schedule 5 – Resources by Departmental Aims and Objectives	26
Notes to the Accounts	27

Annual Report

On the 12 June 2003 the Government announced the creation of the Department for Constitutional Affairs to take on and expand the work of the Lord Chancellor's Department. The Department is responsible for ensuring effective and accessible justice, protecting the rights of citizens and modernising the law and constitution – **justice, rights and democracy.**

The administrative functions of the Scotland Office and the Wales Office were transferred to the Department upon its creation. This has been accounted for as a business combination using merger accounting principles in accordance with FRS 6 (further explanation may be found at Note 3 to these accounts). It is on this basis that we present the Consolidated Resource Accounts for the full financial year ended 31 March 2004.

Principal Activities

The core Department consists of a headquarters, two executive agencies and a number of associated offices. While consolidated within the Department's Resource Accounts, the two executive agencies publish separate agency accounts. Decisions relating to the day-to-day running of them remain the responsibility of their individual Chief Executives.

The associated offices are controlled and monitored by the Department. While some report financial performance in separate annual reports, only the Office of the Legal Services Ombudsman prepares separate statutory accounts that are audited by the Comptroller and Auditor General.

Entities within the accounting boundary of the Department

Core Department

- **Department for Constitutional Affairs Headquarters**
Responsible for supporting Ministers in policy, funding and regulatory functions

as well as providing key services to intra-departmental entities.

Executive Agencies

- **Court Service**
Central to the delivery of justice, it is responsible for the administration of the court system (excluding magistrates' courts) in England and Wales.
- **Public Guardianship Office (PGO)**
Assists in the protection and administration of the financial affairs of individuals with mental incapacity.

Associated Offices

- Office of the Official Solicitor and Public Trustee
- The Office of the Legal Services Ombudsman for England and Wales
- Her Majesty's Magistrates' Courts Service Inspectorate
- The Law Commission
- Council on Tribunals
- Office of the Judge Advocate General
- Judicial Studies Board
- Commission for Judicial Appointments

Scotland Office

- **Scotland Office**
Promotes the devolution settlement and represents Scottish interests with the UK Government.
- **Offices of the Advocate General for Scotland**
Provides legal services and bridges the gap between Scottish and British legal issues.
- **Executive non-departmental public bodies**
Boundary Commission for Scotland:
This is reviewing the parliamentary constituencies in Scotland.

Wales Office

- **Wales Office**

Promotes the devolution settlement and supports the representation of Wales within the UK Government.

Executive non-departmental public bodies outside the accounting boundary

Legal Services Commission

Oversees the administration of legal aid. The Legal Services Commission accounts for £2.147bn of the Department's budget.

Office of the Information Commissioner

Reports to Parliament on aspects of data protection and freedom of information.

Both executive non-departmental public bodies fall outside the accounting boundary and prepare separate accounts that are audited by the Comptroller and Auditor General.

The transfer of responsibility for the Children and Family Court Advisory and Support Service (CAFCASS) to the Department for Education and Skills (DfES), became effective on the 31 March 2003.

Departmental Report

In April 2004, the Department for Constitutional Affairs published a series of three documents that make up the 2003-04 Departmental Report. The first document (Cm 6210) concentrates on the core Department. The other two documents are the 2003-04 Annual Report of the Scotland Office (Cm 6227) and the 2003-04 Annual Report of the Wales Office (Cm 6228). These reports, along with the Main Estimates 2004-05, the Public Expenditure Statistical Analyses 2003 and the Supplementary Budgetary Information 2004-05, present the Government's expenditure plans for 2004-06.

Operating and Financial Review

In the SR2002 Public Service Agreement (PSA) the core Department has 6 objectives:

1. to ensure the effective delivery of justice,

2. to ensure a fair and effective system of civil and administrative law,
3. to reduce social exclusion and protect the vulnerable,
4. to modernise the constitution and ensure proper access to information by citizens,
5. to increase consumer choice in legal services by improving information and by promoting competition, and
6. to deliver justice in partnership with the independent judiciary.

There are seven supporting targets. These, and the six objectives, are explored briefly here and in more detail in the 2003-04 Departmental Report (Cm 6210), the Autumn Performance Report and the Resource and Performance Review (the latter two to be published later this year). The core Department was responsible for approximately £3bn of public spending in the financial year. The use of these resources is reported against the objectives in Schedule 5 of these accounts.

The aim of the Scotland Office is to support the Secretary of State for Scotland in promoting the devolution settlement and Scottish interests in Parliament. A brief review of performance is shown by aim in Schedule 5 and by objectives in Note 32.2. Further detailed information, in respect of performance against PSA targets is provided in the Scotland Office's Annual Report (Cm 6227). Likewise, the Wales Office's aim is to support the Secretary of State for Wales in promoting Welsh interests and ensuring the smooth implementation of the devolution settlement in Wales. The Wales Office's Annual Report (Cm 6228) details its key achievements and performance by objective. Expenditure by aim is provided in Schedule 5.

The Department as a whole was responsible for approximately £30bn of public spending in the financial year.

Performance highlights of the core Department for 2003-04:

Objective 1: to ensure the effective delivery of justice

- **PSA target 1**

- **Narrowing the justice gap**

Over the period March 2003 to March 2004 the number of crimes for which an offender was brought to justice grew by 3.4% to 1.07m¹. To support this uplift the Department has increased the level of sitting capacity in the criminal courts. It has also reduced the proportion of trials that failed to proceed on the day of hearing (otherwise known as ineffective trials). This has dropped to 18% in the Crown Courts from 24% in March 2003. The magistrates' courts have also seen a fall from 30% to 27.7% during the same period.

- **PSA target 2**

- **Improving public confidence in the criminal justice system**

According to the British Crime Survey, at the end of March 2004, 41% of the public believed the criminal justice system was effective in bringing offenders to justice. This represents a 2% increase from the March 2003 baseline. Over the past year, the Department has contributed to a cross Criminal Justice System programme of work to improve public confidence. For the Department this has included measures to improve the enforcement of fines and improve the experience of victims and witnesses.

Objective 2: to ensure a fair and effective system of civil and administrative law

- **PSA target 3**

- **Proportionate dispute resolution**

Many people who are apprehensive about using the courts are unaware of the alternative ways of settling disputes. Over the last financial year the Department has developed and undertaken a series of

pilot mediation schemes looking at reducing both the adversarial nature of solving disputes and the associated costs. Over the year the number of non-family claims issued in the civil courts has fallen by 4.6% to 1.708m. The proportion of non-family cases allocated for hearing (once a defence has been filed) that are resolved by a hearing has dropped by over 7% to 41.8%.

- **PSA target 4**

- **Improving the satisfaction of court users**

In 2003-04 the Department achieved a significant improvement in three of the four headline areas which court users previously identified as being most unsatisfactory. Improvements were made in the knowledge of court counter staff, knowledge of staff on the telephone and the helpfulness of written communication. Slower progress has been made on improving the public's satisfaction with the speed of complaint resolution. Through a range of supporting measures the Department has also worked to reduce the level of unnecessary delay and cost across the civil and family courts ensuring that outcomes are enforced effectively.

- **PSA target 5**

- **Speeding up asylum decisions**

Over the period April 2003 to January 2004, the Department has consistently achieved its target to ensure that 60% of substantive asylum applications are decided, including final appeal, within six months. 63% of applications received in the period April to December 2003 had a final decision within six months. This is supported by an internal target, which requires that 65% of appeals, from receipt of appeal at the Immigration Appeal Authority (IAA) to adjudicator determination, be completed in 12 weeks. Over the year the IAA has achieved a performance level of 74%. This uplift in performance has been achieved through continuous improvements in the quality of work, and improved internal processes for hearing appeals. The Department has also worked jointly with the Home Office on a separate Fast Track process.

¹ Performance data has been adjusted since the Departmental Report 2003-04 (Cm6210) to reflect some minor motoring offences that had been included previously in Criminal Justice System statistics but will not be included in the future.

Objective 3: to reduce social exclusion and protect the vulnerable

● **PSA target 6**

Improving public access to the justice system

During the year the Department has worked closely with the Legal Services Commission to develop further the capacity of the Community Legal Service in providing legal aid in civil disputes. It has also joined forces with other Government agencies, not-for-profit organisations and the private sector to widen the available outlets for citizens to receive affordable advice and guidance services on legal matters. Overall performance against this target is measured by the National Periodic Survey of Legal Need that was conducted from April to August 2004, with initial results available in early 2005. An annual telephone survey is also undertaken to provide indicative evidence of progress towards delivery. The findings from the latest survey indicate that positive progress is being made.

Objective 4: to modernise the constitution and ensure proper access to information by citizens

The Constitutional Reform Bill was introduced to the House of Lords on 24 February 2004. At its second reading on 8 March, the Bill was passed to a special House of Lords Select Committee for further scrutiny. The Bill focuses on proposals to:

- abolish the office of the Lord Chancellor,
- establish a Supreme Court (removing the Law Lords from the House of Lords), and
- establish a Judicial Appointments Commission as a body separate from the Department.

The Select Committee report was published on 2 July 2004 and the Bill continues its parliamentary passage.

Electoral reform has continued, with legislation for the European elections in June 2004 allowing all postal voting in four regions, the enfranchisement of the people of Gibraltar, a reduction in the number of members of the

European Parliament and a range of improvements to the electoral process.

Advice and information has continued to be produced for the public sector in the run up to full implementation of the Freedom of Information Act in January 2005.

Objective 5: to increase consumer choice in legal service by improving information and by promoting competition

There are no supporting PSA targets. Activity included the provision of accessible information to customers, which raised awareness about the range of legal services available and promoted greater use of low cost dispute resolution. An independent review of the regulatory framework for legal services is in place and will consider what regulatory framework will best promote competition, innovation and public and consumer interest in an efficient, effective and independent legal sector. A consultation paper was published in March 2004 and the review expected to report at the end of 2004. The regulatory role of the legal profession and the sponsorship of the independent Legal Services Ombudsman and Legal Services Complaints Commissioner, who deal with complaints about the professional bodies, come under the objective. Proposed reforms to the Silk process also forms part of this objective.

Objective 6: to deliver justice in partnership with the independent judiciary

There are no supporting PSA targets. Activity includes supporting and advising the Secretary of State \ Lord Chancellor in the appointment of the professional judiciary and lay magistrates and making improvements to the systems in place. A report on progress is published in the Judicial Appointments Annual Report 2003-04. The work of the Judicial Studies Board (JSB), an independent body which ensures that the training and learning needs of the judiciary, lay magistracy and judicial officers of tribunals are met in a timely and effective manner, also comes under this Objective. This is also the case for the work of the Commissioners for Judicial Appointments who independently review procedures to ensure appointments are made on merit and investigate complaints from

unsuccessful applicants. The proposal in the Constitutional Reform Bill to create a Judicial Appointments Commission is intended to further enhance judicial independence and the separation of powers. This would entail removing control of the appointment process from the hands of a single Government minister and placing it in the hands of an independent body.

Value for money

- **PSA target 7**

Efficiency

The target is on course to be met by the end of 2005-06. Efficiencies planned for the Spending Review 2002 period will be equivalent to an average of 2% per annum of the total Departmental Expenditure Limit (£3.5bn). In parallel, efficiency and effectiveness gains equivalent to an average of 3% per annum of the Department's spending on the Criminal Justice System (£1.9bn) will also be realised. Outturn in 2003-04 was £28m and £39m respectively against the Department and the Criminal Justice System targets. The efficiencies are being delivered largely through a new regime for funding the defence of Very High Cost Criminal Cases and improved management of legal aid contracts. These and other initiatives to increase the effectiveness of delivery outcomes, such as improving fine enforcement, also contribute to the Criminal Justice System target.

Other efficiencies

The Department has scrutinised its costs to determine how well they are directed to the delivery of key services. As a result further areas for efficiency savings over 2004-05 to 2005-06 have been identified. This will include the redirection of resources from the corporate centre to service delivery, improvements in the procurement and management of contracts and better use of the court estate.

Investment and banking review

During the latter half of the year, the Corporate Board commissioned a review of all investment and banking activities in the core Department. The findings and

recommendations of the review were considered and accepted by the Board.

Following acceptance of the review, an experienced financial services professional was appointed to the new position of Head of Investment and Banking, with responsibility for implementing the recommendations from the review. This will include bringing together the relevant activities in the Public Guardianship Office, the Office of the Official Solicitor and the Public Trustee and the Court Funds Office, with the overriding aim of improving the level of service to clients, reducing risk and increasing accountability. It will also include developing a strategic plan for the future provision of such services in conjunction with the Accountant General of the Supreme Court. The review will also investigate the scale of the securities held at the Bank of England and other intermediaries and will consider their future handling.

Financial performance

At the start of the year the core Department had secured funding through its Main Estimate of £2.847bn. During the year additional funding of £515m was approved by Parliament through the Supplementary Estimates. Included in this amount were £228m due to an increase in the legal aid grant resulting from a non-cash review, £108m from the Single Asylum Fund, £79m from the Criminal Justice System Reserve and £87m in relation to additional e-delivery settlement from HM Treasury.

Scotland Office and Wales Office secured their initial funding, £18.528bn for the Scotland Office and £9.307bn for the Wales Office, through separate Main Estimates. During 2003-04, the additional amounts required by Scotland Office (£778m) and Wales Office (£388m) were due to increased funding of the Scottish Consolidated Fund and the National Assembly for Wales.

The Department's Net Resource Outturn in 2003-04 was £3.615bn, which was within the Estimate limit. The Department also remained within its administration costs limit and made no claim on HM Treasury reserve. HM Treasury's end year flexibility scheme

enabled the Department to carry forward its underspend into 2004-05.

Further analysis of resource outturn by function, as reported in Note 11, reveals the impact of overspends in costs from central funds, that is the cost of repaying privately funded defendants if found not guilty, and additional activity in the Community Legal Service. These overspends were offset by savings across the core Department which were achieved through direct Board action to constrain costs, so the Department kept within its overall available resources. The underspend in relation to the grants payable to the Scottish Consolidated Fund (SCF) and the National Assembly for Wales are ring-fenced for these entities and will either be paid over to them in the subsequent period or forwarded to the Consolidated Fund.

Note 11 also indicates that of the funding available to the Department, £17.064bn (57%) went to Scottish affairs, £9.609bn (32%) to Welsh interests and £3.312bn (11%) toward funding the interests of the core Department.

Of the core Department's funding, £2.864bn (86%) went to the court system and access to justice. This is represented by, £2.176bn (66%) to the Legal Services Commission, £380m (11%) to the Court Service and £308m (9%) to the magistrates' courts, by way of grants paid to local authorities.

These accounts have been prepared on a going concern basis.

Ministers

Lord Falconer of Thoroton was appointed as the Secretary of State on 12 June 2003. For the 2003-04 financial year he was supported by three Parliamentary Under Secretaries of State, Lord Filkin CBE, David Lammy MP, and Christopher Leslie MP. The Secretary of State is also the Lord Chancellor, subject to the reforms proposed in the Constitutional Reform Bill.

For the purpose of these accounts it is necessary to note that until 11 June 2003, Lord Irvine of Lairg served as Lord Chancellor in the then Lord Chancellor's Department. He, in turn, was supported by three Parliamentary Under Secretaries of State,

Baroness Scotland of Asthal QC, Yvette Cooper, MP, and Rosie Winterton, MP.

While the administrative functions of the Scotland Office and the Wales Office were transferred to the Department, responsibility for the relationship between Westminster and the devolved administrations in Edinburgh and Cardiff remains with the Secretary of State for Scotland, Alistair Darling MP, and the Secretary of State for Wales, Peter Hain MP, respectively.

The Parliamentary Under Secretary for Scotland, Anne McGuire MP, and the Parliamentary Under Secretary for Wales, Don Touhig Esq MP, are Ministers in the Department, but report to the Secretary of State for Scotland and Wales respectively. The Advocate General for Scotland, Dr Lynda Clark QC MP, is also a Minister in the Department.

Senior Management

Since the creation of the Department the Ministers have been supported by a Corporate Board of executive and non-executive Directors, led by the Permanent Secretary.

For 2003-04 the Executive Committee of the Corporate Board consisted of Sir Hayden Phillips, Permanent Secretary; Ian Magee CB, Chief Executive, Operations and Second Permanent Secretary; Simon Ball, Director General, Finance; Sir Ron De Witt KB (from March 2004), Chief Executive, Court Service; Clare Dodgson (from March 2004), Chief Executive, Legal Services Commission; John Lyon CB, Director General, Legal and Judicial Services; and Jonathan Spencer CB, Director General, Clients and Policy.

The non executive directors were Sir Peter Bonfield (from March 2004), former Chief Executive of British Telecommunications Plc; Trevor Hall, Equality and Diversity Adviser to the Permanent Secretary; Rt Hon Lord Justice Judge (from March 2004), Deputy Chief Justice for England and Wales; and Hon Barbara Thomas (from March 2004), former partner of Kaye, Scholer, Fierman, Hays & Handler and Commissioner of the US Securities and Exchange Commission.

The Permanent Secretary is appointed by the Prime Minister for an indefinite period under the terms of the Senior Civil Service contract. The other members of the Corporate Board are appointed by the Permanent Secretary. These appointments are also for an indefinite period, except for Simon Ball, who is employed on a fixed term Senior Civil Service contract. The rules of termination for all members of the Corporate Board are set out in Chapter 11 of the Civil Service Management Code.

Ian Magee was appointed Second Permanent Secretary on 5 August 2003.

The Scotland Office and the Wales Office retained their own separate Heads of Department and Accounting Officers during the year. The Head of Department and Accounting Officer for the Scotland Office is David Crawley. His counterpart in the Wales Office is Alison Jackson. Both individuals report directly to their respective Ministers.

Events since the end of the financial year

Parliamentary Under Secretary of State, Baroness Ashton of Upholland was appointed as a new Minister for the Department on 9 September 2004, replacing Lord Filkin CBE.

Sir Hayden Phillips, the Department's Permanent Secretary, retired from the Civil Service on 31 July 2004. Mr Alex Allan was selected as his successor.

Two new members were appointed to the Corporate Board since the end of the financial year. They are:

- Lucian Hudson, Director of Communications, on 26 July 2004, and
- Moira Wallace, Director General of the Office of Criminal Justice Reform, on 9 September 2004.

On the 3 September 2004, Peter Handcock was announced as the successful candidate for the post of Chief Executive designate of the Tribunals Service. The Tribunals Service, which will be launched in 2006, is part of the Government's programme to modernise the justice system and improve the delivery of legal services.

From April 2005 the government-run Court Service and independent magistrates' courts will merge into a single executive agency, called Her Majesty's Courts Service (HMCS). This entails combining all courts in England and Wales including the magistrates courts, run by a total of 42 independent local committees, and the Court Service which runs all courts below the House of Lords (Crown, County and Higher Courts) under one administrative roof.

Remuneration

Ministers' remuneration is set by the Ministerial and Other Salaries Act 1975 and the Ministerial and Other Pensions and Salaries Act 1991.

The Prime Minister on the recommendation of the Secretaries Remuneration Committee sets both the Permanent Secretaries' remuneration. The pay of the other members of the Corporate Board is determined by the Permanent Secretary in accordance with the rules set out in Chapter 7.1, Annex A of the Civil Service Management Code.

Salaries for the judiciary are determined by the Lord Chancellor, with the agreement of Her Majesty's Treasury in accordance with the relevant statutory provisions.

Further details on remuneration are set out in Note 4 to these accounts.

Disabled persons

The Department is committed to ensuring that those with disabilities are supported and encouraged to apply for employment and achieve career advancement based on ability, qualification and suitability for the work. It aims to provide access to the full range of recruitment and career opportunities and to establish working conditions that encourage the full participation of people with disabilities. It also seeks to retain existing staff who may become disabled during their employment.

Equal opportunities

The Department is committed to equality of opportunity in employment and advancement. This is on the basis of ability to do the job, irrespective of race, nationality,

colour, ethnic or national origins, sex, marital status, disability, sexual orientation, age, gender reassignment, work pattern, or membership/non-membership of a trade union. All staff are entitled to be treated with respect in an environment free from discrimination, harassment, victimisation and bullying.

The Department recognises, respects and values the diversity of the society it serves and aims to serve the interests of people from all sections of society.

Payment to suppliers

The Department is committed to the prompt payment of suppliers. Payments are normally made as specified in the contract. If there is no contractual provision or other understanding, payments are made within 30 days of the receipt of the goods or services, or on presentation of a valid invoice or other similar demand, whichever was the later. The most recent prompt payment survey, for the financial year 2003-04, showed that 91.5% of invoices were paid on time. Interest paid under the Late Payment of Commercial Debts (Interest) Act 1988 was £3,715.

Audit

These accounts have been audited by the Comptroller and Auditor General. The cost of the audit for 2003-04 is £541,500 (2002-03 £445,000). This includes £205,000 for the Court Service, £52,000 for the Public Guardianship Office, £8,500 for the Office of the Legal Services Ombudsman, £53,000 for the Judicial Pensions Scheme, £37,000 for the Scotland Office and £21,000 for the Wales Office. No services were provided outside those, required to be performed in relation to the statutory audit.

Sections 6 and 7 of the Government Resources and Accounts Act 2000 require the Comptroller and Auditor General to examine, certify and report on the accounts before they are laid before Parliament.

Provision of information and consultation with employees

The Department attaches considerable importance to ensuring the fullest

involvement of employees in delivering its aims and objectives. It is an 'Investors in People' (iP) organisation and has fully demonstrated the levels of good practice for improving performance through its staff.

In December 2003 the Department embarked on a new project with a single clear aim: to design and implement a high-level communications strategy. Since February over 900 employees have participated through the staff consultation and communications questionnaire, and this number is still growing.

The Department also undertakes an annual employee opinion survey, in which staff are asked for feedback on their thoughts and feelings about working for the Department.

The survey is undertaken to:

- provide a health check of employee views across the Department,
- measure progress since the last survey,
- benchmark results internally and against similar organisations, and
- decide and implement actions based on the survey results in order to increase employee satisfaction and organisational performance.

The Department has been recognised corporately as an Investor in People.

Directorships and other significant interests

A register is maintained by the Department that includes details of company directorships and other significant interests held by Board members which may conflict with their management responsibilities. This register is available for public inspection upon request.

Alex Allan
Accounting Officer

Date: 22 October 2004

Statement of Accounting Officers' Responsibilities

Under the Government Resources and Accounts Act 2000, the Department is required to prepare resource accounts for the year ended 31 March 2004. This conforms to a HM Treasury direction, detailing the resources acquired, held or disposed of during the year and the use of resources by the Department during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

HM Treasury has appointed the Permanent Head of Department as Accounting Officer for the Department with responsibility for preparing the Department's accounts and for transmitting them to the Comptroller and Auditor General.

Additional Accounting Officers have been appointed to be accountable for those parts of the accounts relating to the Executive Agencies. The additional Accounting Officers are responsible for the use of resources and associated assets, liabilities and cash flows under their control.

The Heads of the Scotland Office and Wales Office have been appointed by HM Treasury as additional Accounting Officers for Request for Resources 2 and 3 respectively. The Head of the Scotland Office is responsible for paying grants to Scottish Consolidated Fund to fund the operations of the Scottish Executive and Scottish Parliament. Upon transmission the accountability for the use of these monies passes to the Scottish Parliament. Similarly, the Head of the Wales Office is responsible for the funding of the National Assembly for Wales. Under his terms of appointment the Accounting Officer for the Assembly is accountable for the use, including the regularity and propriety, of the

monies received. A Memorandum of Understanding sets out how the Accounting Officer for the Assembly provides assurance to the Head of the Wales Office as to how he has discharged his responsibilities.

These appointments do not detract from the responsibility of the Permanent Head of Department as Accounting Officer for the Department.

In preparing the accounts the Accounting Officer is required to comply with the Resource Accounting Manual prepared by HM Treasury; and in particular to:

- observe 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 Resource Accounting Manual, have been followed, and disclose and explain any material departures in the accounts, and
- prepare the accounts on a going concern basis.

The responsibilities of an Accounting Officer are set out in the Accounting Officer's Memorandum, issued by HM Treasury and published in *Government Accounting*. These include responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets.

Statement on Internal Control

1 Scope of responsibility

As Accounting Officer I have responsibility for maintaining a sound system of internal control that supports the achievement of Departmental policies, aims and objectives, set by the Department's Ministers, whilst safeguarding the public funds and Departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

As Accounting Officer I agree with Ministers the Departmental plans and allocation of resources to the Department's business areas and delegate financial authority to senior staff, together with corresponding internal control and risk management responsibilities.

A system of internal control operates in Department headquarters and that includes sponsorship branches that monitor the performance of our agencies and non-departmental public bodies (NDPB) and their compliance with the agreed Framework Documents and Financial Memoranda. To the extent that those documents delegate control to the agency or NDPB, I place reliance upon their Statements on Internal Control, as published in their annual reports and accounts.

2 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. This is designed to identify and prioritise the risks to the Department achieving its policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should that happen,

and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Department for Constitutional Affairs for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

3 Capacity to handle risk

As Accounting Officer I acknowledge my overall responsibility for the effective management of risk throughout the Department.

The Department's Risk Management Policy and Framework document was approved and endorsed by the Corporate Board, and was published in June 2002. It sets out the Department's attitude to risk in the achievement of its policies and objectives, and provides guidance on the process of identifying, assessing and managing risk. The document is available to all staff on the Department's intranet.

Registers that identify, assess and set out mitigating actions to significant risks are in place across the Department's headquarters, agencies and non-departmental public bodies. The management and review of the risks identified is led at Board and Directorate level within each business area.

Significant risks are considered by the Executive Committee through both the Quarterly Corporate Risk Report covering the entire organisation, and the Monthly Overview and Exception Report to the key programmes and projects for delivering the Department's manifesto.

There has been substantial enhancement of the Department's overall corporate governance framework and infrastructure during this year.

The measures taken include:

- the Department's Risk Improvement Plan, that has been developed to implement the recommendations contained in the Strategy Unit's Report 'Risk: Improving Government's capability to handle risk and uncertainty'. Progress has been made in embedding risk management in core processes, with risk assessment and management now a routine part of performance monitoring. The Department headquarters co-ordinated risk management workshops throughout the year facilitating the completion of assessments for business units' significant risks. Work has begun to further develop activity around risk in policy making and in partnerships.
- other key governance improvements include: the appointment of additional non-executive directors to the Corporate Board; the provision of improved governance information to ExCom and the Corporate Board; development of a five year strategy; the establishment of a Corporate Audit Committee with improved reporting/assurance links with the Corporate Board and other departmental audit committees; creation of a project assurance centre of excellence; and significant investment in enhancing essential leadership skills.
- a consolidated Corporate Risk Register, informed by the business area risk reporting, reviewed quarterly by the Executive Committee,
- an overview and exception report on performance and risk in the key programmes and projects for delivering the Department Manifesto, reviewed quarterly by the Executive Committee,
- annual self-certification by Senior Budget Holders, agency and non-departmental public bodies Accounting Officers on the development and effectiveness of risk management in their business areas,
- central corporate governance team leading on policy, co-ordinating risk reporting and review across the Department, monitoring progress and responding to requirements issued by central departments,
- risk co-ordinators in each of the Department's business areas,
- a departmental centre of excellence for programme and project management in accordance with Office of Government Commerce requirements, incorporating procedures for the management of risk,
- risk identification, evaluation and management as an integral part of the Department's planning process for its Public Service Agreement (PSA) delivery plans, and
- continuing work to develop and refine the Department's risk policy and framework in line with the Strategy Unit's report on risk and uncertainty.

4 The risk and control framework

The key elements of the Department's risk management strategy for identifying, evaluating and controlling risk are as follows:

- a policy and framework document, setting out formal processes for identifying, evaluating, managing and reporting risk,
- a system of analysis and reporting that identifies risk to objectives, risk impact and likelihood, current and planned management action and assigned individual risk owners,
- a series of risk workshops to assist with the identification and evaluation of risks to objectives,
- risk registers at board and group level for each of the Departmental business areas,

The other key elements in the Department's control system are regular management information, financial regulations, administrative procedures including segregation of duties, and a system of delegation and accountability. In particular the system includes:

- approval of the Department's business plans by a member of the Corporate Board and a Minister,

- comprehensive budgeting systems with an annual budget which is reviewed and agreed by the Corporate Board,
- regular reviews by the Corporate Board of periodic and annual financial reports, that are prepared to indicate financial performance against the forecasts,
- a formal assessment of all new programmes and projects, including strategic and financial review.
An assurance board has been set up to approve all new programmes and projects,
- target setting to measure financial and other performance,
- clearly defined capital investment control guidelines,
- a formal system of financial compliance controls, consisting of core control checks with an auditable trail of evidence, and a review and reporting mechanism to provide assurances from Senior Budget Holders, on a biannual basis, that internal financial controls are in place and operating effectively,
- the provision of a statement of assurance by Liberata UK Ltd to confirm that the accounting services supplied by them have been delivered in compliance with the assurance and control requirements of their contract with the Department,
- a published Fraud Policy, with effective capability to investigate incidents of fraud, including a cadre of trained staff.
The policy is currently being updated in accordance with the Treasury's guide, 'Managing the Risk of Fraud',
- a whistle-blowing policy for confidential reporting of staff concerns,
- continued development, testing and refinement of Business Continuity Plans, ensuring that key activities throughout the Department can continue effectively following a disruption, and
- continued striving towards achieving compliance with ISO 17799, the International Standard for Information Security Management across the Department. Full compliance planned

by September 2004 has been carried over to February 2005. Substantial progress however has been made in updating the departmental security infrastructure, production of comprehensive security policy statements and guidance, and risk assessments on all of the Department's key information to meet the requirements of BS7799 Part 2.

5 Review of effectiveness

As Accounting Officer I also have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications resulting from my review of the effectiveness of the system of internal control by the Board and the Audit Committee, and plans to address weaknesses and ensure continuous improvement of the system are in place.

The key elements of the system of internal control are set out in Section 4 above and contribute to my review of the system's effectiveness. The following bodies also inform my review:

- **Corporate Board and Executive Committee** – the Board approved the Department's Risk Management Framework and Policy Document, and the Executive Committee (ExCom) has been involved in the development of the Corporate Risk Register. ExCom considers the quarterly risk reports and any issues arising are discussed at the Corporate Board.
- **Corporate Audit Committee** – the Committee is a continuing source of advice and assurance on the effectiveness of governance, control and risk management arrangements.
The Committee meets a minimum of four times each year and has a non-executive chairman. It receives regular reports on the development of risk management and

internal control and considers internal and external audits on the system of internal control and any material weaknesses. The Chairman reports directly to the Accounting Officer and the Corporate Board twice a year. The Committee maintains effective communication links with the Department's agency and non-departmental public body audit committees, and exchanges information on matters of mutual interest.

- **Risk Co-ordinators** – a network of risk co-ordinators has been established within the Department's headquarters, agencies and non-departmental public bodies, to co-ordinate the reporting and management of risk and control issues within business areas and for the Department in reporting to the Executive Committee, the Audit Committees and internal and external auditors.
- **Internal Audit** – the Department has an Internal Audit Division that operates to the Government Internal Audit Standards. It submits regular reports, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the Department's governance, control and risk management arrangements together with recommendations for improvement.

I outline below the significant internal control issues for the Department:

Update on issues raised in 2002-03 statement

National Taxing Teams (NTT)

Recovery of overpayments for interim payments against bills of cost to solicitors and counsel, first reported in the Department's 1998-99 Appropriation Account, has now been completed. In 2002-03 recoveries of £295,404 were made. An irreconcilable balance of £703,000 was approved for write-off by HM Treasury, and a further £35,083 of debts that could not be recovered economically were written off.

A final figure of £499,006 was written off during 2003-04. It represented amounts

where available evidence was inconclusive as to whether an overpayment had taken place, or where the debt was over six years old and there was no prospect of recovery by off-setting against future claims. Responsibility for remaining NTT debts of £330,431 (£514,560 less the remaining provision of £184,129) was transferred to the Legal Services Commission from 31 March 2004.

Recovery of Defence Costs Orders (RDCOs)

After the implementation of the RDCO system, internal audit carried out a two-stage review of its operation in the Crown Court, which raised concerns about non-compliance with controls. The second stage review, at the end of 2002, showed that there had been some improvement in compliance. However there were still areas where logs were not being maintained correctly. Systems supporting management information also required strengthening and there was a continuing need to increase the involvement of the Judiciary in the RDCO system.

To address these concerns, regulations amending the Criminal Defence Service (RDCO) Regulations came into force on 17 May 2004. The supporting Practice Direction, Criminal Proceedings: Costs (part XI), was handed down on 18 May 2004. Guidance was issued to courts on 3 June. The amended regulations require an order to be made in all cases where a defendant receives a publicly funded representation order, bar in a few limited circumstances, and encourages the judiciary to ensure they have actively considered whether it is appropriate to make an order. The regulations also provide that a court must make an order for full costs where the defendant fails to provide information about their means. A follow-up internal audit is intended to take place towards the end of the next financial year 2004-05.

Magistrates' courts grants payments system

Internal Audit reports previously identified significant weaknesses in controls for the allocation and payment of grants to local authorities. A new control sheet has been

developed and implemented for the payments made during 2003-04 and for subsequent years. The Internal Audit Division has approved this spreadsheet and carried out an interim audit on the calculation of third quarter payments. No major errors were reported from this interim audit. Procedures to maintain an audit trail have also been implemented. While these changes will ease the transition into unified administration by ensuring the accuracy of 2003-04 payments, it is known there are errors in preceding years that require resolution. To this end an exercise is being conducted to identify and agree with the paying authorities all discrepancies in respect of payments made since 2000-01. When this clean accounts exercise is concluded we should be confident that all payments properly due in the five years prior to April 2005 have been paid. There should be no future claims or repayments in respect of errors. Internal Audit will test the clean accounts exercise results before they are presented to paying authorities.

Collection of fines/penalties

Work has been established as part of the Unified Courts Administration Programme (UCAP) for building and revising existing controls to provide reliable, verifiable and accurate statistical and accounting information from every stage of the process within magistrates' courts for fine and fees receipts. A detailed action plan for fines Debt Analysis Return (DAR) data accuracy has been agreed with Internal Audit and has been approved by the UCAP Finance Project Board. A similar plan for fees is with the Finance Project Board for consideration. A final audit of the DAR data accuracy is expected to take place in December 2004 and January 2005 and an audit of the Difficult to Collect Fines Data in February 2005. This work is to provide an assurance to National Audit Office (NAO) that the opening balances on the Balance Sheet for Her Majesty's Courts Service agency accounts have clear audit trails and systems which are robust enough to support them.

In-year monitoring of expenditure

In line with the joint Departmental and Treasury review, necessary work has been undertaken to improve financial in-year monitoring and the Department now has a functional system of financial reporting to the Corporate Board. The necessary work has resulted in an improvement of internal systems to capture information in a more timely, accurate and consistent manner, improvement in the validation of data and better communication between stakeholders and Finance Division within the Department.

Finance will continue to monitor and identify ways of further improving in-year monitoring of both cash and resource forecasts.

Procurement of professional services

Further progress has been made, aimed at improving the adequacy and effectiveness of control over the use of consultancy and other professional services. The use of such services is scrutinised and regularly monitored and reported to the Corporate Board. Facilities Management Group (Procurement Division) has developed its internal capacity to provide expert support and guidance and continues to promulgate good practice and to remind staff of the internal control requirements. Further consideration is being given to validation of expenditure recording on the General Ledger, strategies for reducing dependency levels and promoting skills transference. A full follow-up audit is scheduled for later in 2004-05.

Fine enforcement netting-off scheme in the magistrates' courts

An Internal Audit report identified considerable weaknesses in the system for monitoring the Magistrates' Courts Committees (MCCs) expenditure against allocation and income from fines. A revised system has been established because of this, with the aim of measuring more closely the effectiveness of enforcement initiatives. For the financial year 2004-05 the MCC's are to be provided with a centrally approved list of initiatives and will be asked to complete a bid form for each initiative they wish to take forward. Each initiative will be costed

individually allowing Finance Division to compare figures between the MCC's and to investigate and question those that appear outside of the average.

Libra

A comprehensive organisational review of the Libra project structures, processes and procedures has led to the development of governance arrangements that are consistent with best practice based on departmental and the Office of Government Commerce (OGC) guidance for project management. The OGC Gateway 3 Review (Investment Decision) in October 2003 noted the progress made, but confirmed Internal Audit Division (IAD) findings in respect of the need for further work on the business case, resolution of staffing problems and the need for revised financial management procedures.

Three specialised contractors are now on board to deliver Libra. The managed infrastructure and the office automation products have been delivered to all 42 Magistrates' Courts Committee's sites across England and Wales. The business application development and delivery is now being produced separately in three parts. This reduces risk and improves value for money through phased development of the new application, although timescales for development and implementation remain very challenging.

A senior user group with representatives from all the MCCs has been established to approve the requirements of the Libra application. Workshops have also been conducted to capture all the relevant business requirements for the project. The Department is working with the OGC to share lessons learned and to pool experience with key suppliers. This will lead to a more comprehensive system for sharing and using information concerning key suppliers who are engaged in major projects with other Government departments.

Public Guardianship Office (PGO): Stewardship Accounts in respect of third party assets

The PGO's framework document requires Stewardship Accounts to be produced in respect of third party assets. An outcome from the Receivership Project was to prepare formal Stewardship Accounts and an accounts direction for the Department and HM Treasury's approval.

For the financial year ended 31 March 2004, the dry run Stewardship Accounts were prepared in accordance with the accounting principles set out in a Statement of Receivership Accounting Guidance compiled by the PGO and agreed by the Department, HM Treasury and the National Audit Office. This will detail cash and investments held or managed by the Chief Executive of PGO on behalf of his clients, as well as the total assets, which are under the Chief Executive's direction. A formal direction is to be issued for the preparation and the audit of the 2004-05 Stewardship Accounts.

New issues raised in this statement

Court funds accounting procedures

The completion of the Internal Audit Review of the Court Funds Office accounting procedures in June 2003 prompted a concerted effort to clear the many operational and accounting deficiencies and to establish propriety and best practice through a complete review of the structure and working practices. In support of this appropriate control, training and guidance have been introduced. Training of all staff has concluded ahead of rollout and will comply fully with the Tri-Annual/Annual certification process during 2004-05. A director for investment and banking has been appointed to drive forward both operational and policy action to mitigate against future concerns. As part of the process of strengthening the governance framework for the Court Funds Office, the National Audit Office and Internal Audit Division will maintain co-ordinated audit programmes to maximise the effectiveness of the audit process.

Official Solicitor and Public Trustee (OSPT)

The National Audit Office conducted a review of the office's stewardship of client funds. The review identified weaknesses in the risk management, control and governance framework supporting the Public Trustee's stewardship of client funds. As a result 27 recommendations have been agreed to fully identify and assess all key risks and to implement necessary changes to the governance and control framework. Progress on implementing the agreed recommendations is being closely monitored by the Department.

Contract overcharging

An incident of overcharging by a contractor providing services to the Department was identified and rigorously investigated. All identified instances of overcharging, totalling £526,331, were successfully recovered, along with additional costs of the investigation and related legal work. Existing control arrangements have been strengthened as a result. These include the introduction of service level indicators, in conjunction with the business areas, to monitor contractor performance at the point of service delivery and the development and implementation of more rigorous financial and process controls to validate invoices produced for payment.

Alex Allan
Accounting Officer

Date: 22 October 2004

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

I certify that I have audited the financial statements on pages 19 to 76 under the Government Resources and Accounts Act 2000. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 27 to 35.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 9, the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder, and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether 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. I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the accounts, and consider whether it is consistent with the audited financial

statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 10 to 16 reflect the Department's compliance with HM Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Department in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Department's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, 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. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Department for Constitutional Affairs at 31 March 2004 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, and
- 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.

I have no observations to make on these financial statements.

John Bourn

Comptroller and Auditor General

Date: 3 November 2004

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

SCHEDULE 1

Summary of Resource Outturn

for the year ended 31 March 2004

	2003-04						Difference Net total Outturn compared with Estimate Savings/ (excess) £000	2002-03 As restated Outturn £000
	Estimate			Outturn				
	Gross Expenditure £000	A-in-A £000	Net Total £000	Gross Expenditure £000	A-in-A £000	Net Total £000		
Request for Resources 1 (Notes 8 and 11)	3,827,121	(465,610)	3,361,511	3,761,263	(449,398)	3,311,865	49,646	3,042,988
Request for Resources 2 (Notes 8 and 11)	19,307,817	(18,529,243)	778,574	17,065,471	(17,065,470)	1	778,573	17,992,734
Request for Resources 3 (Notes 8 and 11)	9,694,908	(9,306,650)	388,258	9,609,784	(9,306,650)	303,134	85,124	9,002,465
Total Resources	32,829,846	(28,301,503)	4,528,343	30,436,518	(26,821,518)	3,615,000	913,343	30,038,187
Non-Operating Cost A-in-A (Note 13)			58,374			58,374	-	1,010
Net Cash Requirement (Schedule 4)			4,492,077			3,561,848	930,229	

Request for Resources 1 relates to the activities of the core Department, its agencies and associated offices. Request for Resources 2 relates to the activities of the Scotland Office. Request for Resources 3 relates to the activities of the Wales Office.

In June 2003 the Government announced a series of Machinery of Government changes and transfers of various functions within the Public Sector. As a result, the Scotland and Wales Offices and the Lord Chancellor's Department merged and became the Department for Constitutional Affairs. At the same time the Marriage and Relationship Support grant paying function, as well as CAF/CASS, transferred to the Department for Education and Skills.

Machinery of Government changes are required, by the Resource Accounting Manual, to be treated as mergers. Accordingly, the results for Scotland and Wales for the year ended 31 March 2003 were incorporated into the Departmental Resource Accounts for that year, restating the comparatives and resulting in a restated net resource outturn.

Adjustments arising as a result of Machinery of Government changes require additional appropriations in aid to be reflected within Schedule 1 of the Resource Accounts. Therefore, £26.371bn is treated as operating appropriations in aid and not as additional Supply. This treatment has resulted in an equivalent reduction in net total resources and net cash requirement for 2003-04.

Schedule 1 (continued)

The table below illustrates how Schedule 1 would appear without the application of the Machinery of Government adjustments and provides comparability between 2003-04 and 2002-03 net total resources.

Illustrative Summary of Resource Outturn

On a comparable basis

	2003-04 Outturn			2002-03 Outturn
	Gross Expenditure	A-in-A	Net Total	Net Total
	£000	£000	£000	£000
Request for Resources 1 – Core Department	3,761,263	(449,398)	3,311,865	3,042,988
Request for Resources 2 – Scotland Office	17,065,471	(894)	17,064,577	17,992,734
Request for Resources 3 – Wales Office	9,609,784	(9)	9,609,775	9,002,465
Total Resources	30,436,518	(450,301)	29,986,217	30,038,187

Summary of income payable to the Consolidated Fund

The following income is payable to the Consolidated Fund (cash receipts are shown in italics).

	Note	2003-04 Forecast		2003-04 Outturn	
		Income	<i>Receipts</i>	Income	<i>Receipts</i>
		£000	£000	£000	£000
Payable to the Consolidated Fund	7	275,551	275,551	1,681,650	1,688,021

Schedule 1 (continued)

Reconciliation of resources to net cash requirement

		2003-04	
	Note	Estimate £000	Outturn £000
			Difference £000
Net Total Resources		4,528,343	3,615,000
Capital:			
Purchase of tangible fixed assets	13	158,559	89,989
Repayment of capital element of finance leases		–	603
Non-operating A-in-A:			
Proceeds of fixed asset disposals	13	(58,374)	(58,374)
Accruals Adjustments:			
Non-cash items	16.1	(126,961)	(120,259)
Movements in working capital other than cash	17.1	(13,595)	33,722
Use of provisions	21	4,105	1,463
Transfer of functions – difference between resource and cash transfers		–	(296)
Net Cash Requirement (Schedule 4)		4,492,077	3,561,848

Explanation of variation between Estimate and Outturn:

The variation between estimate and actual resource outturn within Request for Resources 2 arose as a result of the Scottish Executive not requiring their full grant.

Explanation of the variation between Estimate net cash requirement and Outturn net cash requirement:

The variation between estimate and actual net cash requirement on capital resulted from a change made to the way proceeds of sale of fixed assets are treated in Schedule 1. The change was not incorporated into the Spring Supplementary.

SCHEDULE 2

Operating Cost Statement

for the year ended 31 March 2004

	Note	2003-04		2002-03 As restated	
		£000	£000	£000	£000
Administration Costs					
Staff costs	4.2		319,187		291,645
Non staff administration costs	5		460,100		482,066
Gross Administration Costs			779,287		773,711
Operating income	8.2		(19,814)		(16,154)
Net Administration Costs			759,473		757,557
Programme Costs					
Request for Resources 1					
Judicial salaries	4.4	284,768		251,550	
Expenditure	6	2,718,262		2,481,720	
Less: income	8.2	(432,095)		(393,589)	
		2,570,935		2,339,681	
Request for Resources 2					
Expenditure	6	17,058,295		17,985,932	
		17,058,295		17,985,932	
Request for Resources 3					
Expenditure	6	9,606,176		8,998,940	
		9,606,176		8,998,940	
Net Programme Costs			29,235,406		29,324,553
NLF interest payable			131,955		89,675
NLF interest receivable			(131,955)		(89,675)
Net Operating Costs	10 & 11		29,994,879		30,082,110
Net Resource Outturn	10 & 11		3,615,000		30,038,187

All income and expenditure are derived from continuing operations.

Statement of Recognised Gains and Losses

for the year ended 31 March 2004

	Note	2003-04	2002-03
		£000	£000
Unrealised surplus on revaluation of tangible fixed assets	23	143,949	63,473
Total recognised gains and losses for the financial year		143,949	63,473

SCHEDULE 3

Balance Sheet

as at 31 March 2004

	Note	31 March 2004		31 March 2003 As restated	
		£000	£000	£000	£000
Fixed Assets					
Tangible assets	14	1,732,515		1,587,407	
Investments	15	<u>987,942</u>		<u>1,045,529</u>	
			2,720,457		2,632,936
Current Assets					
Debtors	18	206,541		128,249	
Cash at bank and in hand	19	<u>1,556,042</u>		<u>177,125</u>	
		1,762,583		305,374	
Current Liabilities					
Creditors (amounts falling due within one year)	20.1	<u>(1,766,391)</u>		<u>(351,718)</u>	
Net Current Assets			<u>(3,808)</u>		<u>(46,344)</u>
Total Assets less Current Liabilities			2,716,649		2,586,592
Non Current Liabilities					
Creditors (amounts falling due after more than one year)	20.2	(967,945)		(1,013,749)	
Provisions for liabilities and charges	21	<u>(33,571)</u>		<u>(8,547)</u>	
			<u>(1,001,516)</u>		<u>(1,022,296)</u>
			<u>1,715,133</u>		<u>1,564,296</u>
Taxpayers' Equity					
General fund	22		995,660		964,656
Revaluation reserve	23		<u>719,473</u>		<u>599,640</u>
			<u>1,715,133</u>		<u>1,564,296</u>

Alex Allan
Accounting Officer

22 October 2004

SCHEDULE 4

Cash Flow Statement

for the year ended 31 March 2004

	2003-04	2002-03
	<u>£000</u>	<u>As restated</u>
Note	£000	£000
Net cash outflow from operating activities	a (29,751,819)	(29,790,042)
Capital expenditure and financial investment	b (16,225)	9,151
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities	221,207	245,699
Receipts due to other government departments which are outside the scope of the Department's activities	133,271	72,893
(Decrease)/increase in third party balances	(71,280)	7,216
Payments of amounts due to the Consolidated Fund	(173,877)	(253,146)
Payments to other government departments	(120,334)	(66,227)
Financing	c 31,157,974	29,849,496
Increase in cash	19 1,378,917	75,040

Notes to the Cash Flow Statement

	2003-04	2002-03
	<u>£000</u>	<u>As restated</u>
Note	£000	£000
a. Reconciliation of operating cost to operating cash flows		
Net Operating Cost (Schedule 2)	29,994,879	30,082,110
Adjustments for non-cash transactions	16.2 (234,251)	(315,912)
Adjustments for movements in working capital other than cash	17.2 (10,272)	22,392
Use of provisions	21 1,463	1,452
Net cash outflow from operating activities	29,751,819	29,790,042
b. Analysis of capital expenditure and financial investment		
Purchase of tangible fixed assets	13 77,074	21,773
Proceeds from disposal of fixed assets	13 (3,262)	(4,194)
Loan repayments from other bodies	13 (57,587)	(26,730)
Net cash outflow/(inflow) from investing activities	16,225	(9,151)

Notes to the Cash Flow Statement (continued)

	2003-04	2002-03
Note	£000	As restated £000
c. Analysis of financing		
Received from the Consolidated Fund (Supply)	3,489,088	29,967,634
Paid to the Consolidated Fund	(5,107)	(2,689)
Advances from the Contingencies Fund	126	350,000
Repayments to the Contingencies Fund	(126)	(350,000)
Machinery of Government changes	27,732,183	(87,552)
NLF – principal repayments received	(57,587)	(26,730)
Repayment of capital element of finance lease	(603)	(1,167)
Net financing	31,157,974	29,849,496
d. Reconciliation of financing to the net cash requirement		
Net financing	31,157,974	29,849,496
Increase in cash	19 (1,378,917)	(75,040)
Excess A-in-A from previous year paid over	(3,913)	–
Excess A-in-A received not paid over	1,465,242	3,913
Consolidated Fund Extra Receipts received not paid over	79,836	26,684
Consolidated Fund Extra Receipts received in prior years paid over	(27,021)	(30,109)
Receipts due to other government departments not paid over	24,081	11,144
Receipts due to other government departments received in prior year paid over	(11,144)	–
NLF loans – principal repayments received	57,587	26,730
NLF loans – interest received from other bodies	135,914	91,182
NLF loans – interest paid to the NLF	(135,914)	(91,182)
(Decrease)/increase in third party balances	(71,280)	7,216
Repayment of capital element of finance lease	603	1,167
Machinery of Government changes	(27,732,183)	87,552
Machinery of Government – creditor	690	–
Transitional adjustments	–	31
Prior year adjustment	293	3
Net Cash Requirement (Schedule 1)	3,561,848	29,908,787

Amount of grant actually issued to support the net cash requirement = £3,489,087,859.00

SCHEDULE 5

Resources by Departmental Aims and Objectives

for the year ended 31 March 2004

Aim

The aim of the Core Department is to ensure effective and accessible justice, protect the rights of citizens, and modernise the law and constitution.

	2003-04			2002-03 As restated		
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000
RfR 1						
Objectives						
1. To ensure the effective delivery of justice.	2,157,045	(61,217)	2,095,828	1,964,972	(48,021)	1,916,951
2. To ensure a fair and effective system of civil and administrative law.	890,164	(296,967)	593,197	866,999	(275,560)	591,439
3. To reduce social exclusion, protect the vulnerable and children, including maintaining contact between children and the non-resident parent after a family breakdown, where appropriate.	665,319	(82,015)	583,304	626,892	(76,246)	550,646
4. To modernise the constitution and ensure proper access to information by citizens.	14,000	(9,516)	4,484	8,238	(8,374)	(136)
5. To increase consumer choice in legal services by improving information and by promoting competition.	6,954	(306)	6,648	4,081	(95)	3,986
6. To deliver justice in partnership with the independent judiciary.	23,461	(949)	22,512	22,009	(523)	21,486
Residual expenditure – HM Land Registry	14,590	–	14,590	2,539	–	2,539
	<u>3,771,533</u>	<u>(450,970)</u>	<u>3,320,563</u>	<u>3,495,730</u>	<u>(408,819)</u>	<u>3,086,911</u>

RfR 2

Aim

To give the Secretary of State for Scotland the best possible support in promoting the devolution settlement and in representing Scottish interests within the UK Government.

	17,065,471	(893)	17,064,578	17,993,649	(915)	17,992,734
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RfR 3

Aim

To support the Secretary of State for Wales in discharging his role of representing Wales in the Government, representing the Government in Wales and ensuring the smooth working of the devolution settlement in Wales.

	9,609,784	(46)	9,609,738	9,002,474	(9)	9,002,465
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Net Operating Costs

	<u>30,446,788</u>	<u>(451,909)</u>	<u>29,994,879</u>	<u>30,491,853</u>	<u>(409,743)</u>	<u>30,082,110</u>
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For further details see Note 31.

Prior year net operating costs have been restated against current year objectives. For analysis of current year net operating costs against prior year objectives see Note 32.1.

Analysis of RfR 2 by objective can be found in Note 32.2, and details relating to RfR 3 in Note 32.3.

Notes to the accounts

for the year ended 31 March 2004

1 Statement of accounting policies

The financial statements have been prepared in accordance with the 2003-04 Resource Accounting Manual (RAM) issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the RAM permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the Department, for the purpose of giving a true and fair view, has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

The accounts have been prepared under the historical cost convention and modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs.

1.2 Basis of consolidation

These accounts represent a consolidation of the Department for Constitutional Affairs and its supply-financed agencies, the Court Service and the Public Guardianship Office (PGO). Consequent to the Machinery of Government changes announced on June 12, 2003 (see Note 3) which are outlined in the Annual Report on pages 1 to 8, the results of the Scotland Office and the Wales Office are now also consolidated and are no longer reported separately. Both agencies, the Court Service and the PGO, produce their own annual report and accounts.

The Department is also responsible for the control and monitoring of the following other offices: the Law Commission, the Office of the Legal Services Ombudsman for England and Wales, Her Majesty's Magistrates' Courts Service Inspectorate, Council on Tribunals, Office of the Judge Advocate General, the Official Solicitor and Public Trustee, the Judicial Studies Board and the Commission for Judicial Appointments. These, together with various tribunal and advisory non-departmental public bodies, fall within the departmental accounting boundary and are incorporated into the consolidated resource accounts.

The results of the Legal Services Commission and the Information Commissioner's Office are not included by way of consolidation. These executive non-departmental public bodies fall outside the departmental boundary. Both bodies publish their own audited annual report and accounts.

1.3 Tangible fixed assets

Legal title to freehold land and buildings shown in the accounts is held in the name of the Secretary of State. The Department assumed responsibility for the former Departmental Estate on 1 April 1991 and the former Common User Estate on 1 April 1996. The Department enjoys beneficial ownership of the properties it uses as major occupier, and such properties are therefore capitalised and included in the balance sheet.

All tangible fixed assets are restated to current value each year. Land and buildings are restated to current value using professional valuations in accordance with FRS 15 at least every five years, and in the intervening years using desktop valuation or appropriate indices. In 2000-01 a rolling programme of professional valuations was introduced. The Valuation

Office Agency (VOA) carries out the valuations in accordance with the Royal Institute of Chartered Surveyors' (RICS) Appraisal and Valuation Manual. This involves the revaluation of 20% each year, by number, of the property assets together with the four most highly valued properties. The 20% are drawn from different types of property and geographical areas.

Specialised properties with no established market, such as purpose-built Crown Courts, are valued on the basis of depreciated replacement cost. The open market value of these properties is significantly lower than that disclosed in the accounts. Other properties are valued on an existing use basis.

Other tangible fixed assets have been stated at their value to the business by reference to indices published by the Office of National Statistics.

Department for Constitutional Affairs' headquarters and Wales Office

The prescribed capitalisation threshold is £1,000 except for the Scotland Office whose capitalisation thresholds are outlined below. In terms of monetary value, the difference in policy is not material in the context of the assets held by the Department as a whole.

Assets costing in excess of the stated capitalisation levels are treated as capital assets. An item is also treated as a capital asset when it costs less than the prescribed limit but forms an integral part of a package whose total value is greater than the capitalisation level.

The total cost of maintaining a record of relatively low value individual furniture items is considered prohibitive and therefore these items are recorded on a pooled basis. The only exceptions are antiques and high density storage.

Antique furniture that is used in the business is valued individually at open market value. The value of non-operational antiques, such as paintings and other works of art, is not considered material and these items are not capitalised for balance sheet purposes.

Scotland Office

The minimum levels for capitalisation of tangible fixed assets are as follows:

	£
Land and buildings	10,000
Plant and machinery	5,000
Fixtures and fittings	1,000
Office equipment	5,000
Vehicles	1,000
Equipment	5,000
IT equipment	1,000
Software	100

1.4 Depreciation (see Note 2)

Freehold land and buildings considered surplus to requirements are not depreciated. Assets in the course of construction are depreciated only when they are ready for use. Depreciation is spread in equal instalments over the estimated useful economic lives of the assets. For leased assets it is spread over the life of the lease.

Lives are normally in the following ranges:

Freehold buildings	Remaining life, or 60 years, whichever is shorter.
Leasehold buildings	Remaining life, remaining lease period or 50 years, whichever is shortest. Leasehold land with more than 125 years remaining is not depreciated.
Leasehold land	Remaining lease period, except for leases with more than 125 years remaining, which are not depreciated.
Information technology	5 to 10 years
Plant and machinery	3 to 7 years
Furniture and fittings including antiques	5 to 50 years

1.5 Investments

Financial interests in bodies which are outside the departmental boundary are treated as fixed-asset investments since they are held for the long term. These comprise:

National Loans Fund (NLF)

Advances from the National Loans Fund are treated as investments and disclosed at historical cost. The balances within these accounts represent loans from the NLF on-lent by the Secretary of State for Scotland to Scottish Homes, Registers for Scotland and the three Scottish Water Authorities, as well as a loan to the Welsh Development Agency, issued by the Secretary of State for Wales through the National Assembly for Wales.

Interest on, and repayments of, loans made from the National Loans Fund are collected by the sponsor department, i.e. the Scotland Office and the Wales Office, and surrendered to the Fund. Loan balances are treated as a creditor (see Note 20).

Shares in limited companies/special shares

The Secretary of State for Scotland holds the following 'special' or 'golden' shares:

Scottish Power plc	1 special right non-voting redeemable preference share of £1
Scottish & Southern Energy plc	1 special right non-voting redeemable preference share of £1
British Energy (GB) Ltd	1 special right redeemable preference share of £1

These investments are included at market value if this can be readily ascertained, or are valued on a basis agreed as being appropriate with HM Treasury. The market value of the share capital of the Department cannot be readily ascertained and it has been agreed with HM Treasury that it should be shown at the book value of its net assets.

For further details on shares held, see Note 15 and Note 30.

1.6 Stock

Stocks of stationery and other consumable stores are not considered material and are written off in the Operating Cost Statement as they are purchased.

1.7 Pensions

Most of the Department's staff are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is non-contributory and unfunded except in respect of dependents' benefits. Although the scheme is a defined benefit scheme, liability for payment of future benefits is a charge to the PCSPS. The Department, its agencies and other bodies covered by the PCSPS recognise the expected cost of providing pensions on a systematic and rational basis over the period during which they benefit from the employee's service by payment of charges calculated on an accruing basis. Employer contributions to this scheme are charged to the Operating Cost Statement.

The Department has separate schemes for the Law Commissioners and Immigration Adjudicators, which are 'by analogy' or similar to the PCSPS. Provision has been made for the future cost of benefits under these schemes.

The Department also administers the Judicial Pensions Scheme which provides for the pensions of judicial office holders of five participating departments across Government. A percentage of the accruing superannuation liability charge paid by these departments is appropriated in aid by the Department to cover the cost of administration.

In respect of the defined contribution schemes, the Department recognises the contributions payable in the year.

1.8 Early departure costs

The Department 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 has been announced and is binding on the Department. The estimated cash flows are discounted using HM Treasury's discount rate of 3.5% in real terms. However, the Scottish Executive provides for the additional costs in respect of the Scotland Office staff. These amounts are not provided for in these accounts.

Prior to 1 April 2000 the Department could, under certain circumstances, settle some or all of its liability in advance. Any remaining prefunding is shown in the Balance Sheet as a prepayment.

1.9 Research and development

Expenditure on research is charged to the Operating Cost Statement as it is incurred. Development expenditure is capitalised if it meets the criteria specified in the Resource Accounting Manual (RAM), which are adapted from SSAP13 to take account of the not-for-profit context. Expenditure which does not meet the criteria for capitalisation is charged to the Operating Cost Statement as it is incurred.

1.10 Operating income

Operating income is income which relates directly to the operating activities of the Department. It predominantly comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work. It also includes other income such as that from investments. It includes both income appropriated in aid of the Estimate and income due to the Consolidated Fund, which in accordance with the RAM, is treated as operating income. Operating income is stated net of VAT.

The Information Commissioner, though not consolidated into the resource accounts, is bound by paragraph 9(1), Schedule 5 of the Data Protection Act 1998. This stipulates that all fees and other sums received by the Commissioner in the exercise of his functions shall be paid to the Secretary of State and Lord Chancellor.

The Court Service records each fee in full at the time it is raised. In a number of cases fees taken will relate to work which will not be completed within the accounting period. Deferred income is estimated at period end using a standard time per case workflow model to adjust the total income recorded in the period.

The PGO recognises all material fee types on an accruals basis. A year-end adjustment is made to accrue for fees charged under the Mental Health Act 1983 for each customer account.

The Official Solicitor and Public Trustee (OSPT) earns fees from its estates, litigation and trust activities. In estates, a bill of costs is either raised once a year, in the majority of case types, or on completion of the case, for conveyancing and administration of estates. In litigation, a bill of costs is drawn on completion of the case. For trust activities, administration fees are due on 1 April and are based on the capital value of the case. Other fees charged are recognised when they fall due for payment.

Note 8.2 highlights the income which, under the administration cost control regime, is allowed to be offset against gross administration costs to determine the outturn against the administration cost limit.

An analysis of fees and charges to customers inside and outside the public sector is found in Note 8.3. It shows income, full cost and surplus or deficit as required by HM Treasury's Fees and Charges Guide.

1.11 Administration and programme expenditure

The Operating Cost Statement is analysed between administration and programme costs. Administration expenditure reflects the costs of running the Department while programme costs relate to service delivery activities.

Net administration costs include administrative staff salaries, accommodation charges, depreciation and associated operating income. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against the gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not.

Programme costs, on the other hand, include grants made to the Legal Services Commission to fund legal aid, and grants to the Scotland Consolidated Fund and the National Assembly for Wales.

1.12 Grants payable and paid

The majority of grants paid by the Department are recorded as expenditure in the period in which they are paid. In some instances claims are deemed to be the only appropriate and measurable activity that truly creates an entitlement for the recipient.

The Department recognises grants due to its executive non-departmental public bodies in the period in which they are paid. This is adjusted for the amount of unspent grant held by the recipient at 31 March, over and above the allowable threshold.

From 1 April 2003 responsibility for the funding of legal aid in the higher criminal courts passed to the Legal Services Commission (LSC), an executive non-departmental public body. The function of assessing and paying Crown Court bills, with the exception of cases conducted under individual case contracts, will remain with the Department which will levy a charge for the service on the LSC under a prescribed service level agreement. The resulting increase in the LSC's expenditure will be funded by an increased grant from the Department.

The Department makes other major grants to local authorities in respect of magistrates' court's costs. The Department funds 80% of the estimated costs of the magistrates' courts. It pays out 90% of this estimate during the financial year and withholds 10% until the certification of grant claims by local authority auditors in the following (or later) financial year confirms the entitlement.

As a result of recent Machinery of Government changes, the Department now also makes grants to the Scottish Consolidated Fund (SCF) and the National Assembly for Wales (the Assembly).

Government funding of the SCF and the Assembly is included within the Department's Estimate, as separate requests for resources. The grants are paid in accordance with each devolution act (Scotland Act 1998 and Government of Wales Act 1998), at the direction of HM Treasury.

The Department also makes a small number of grants to a variety of public sector, private sector and voluntary bodies. These grants are recognised at the point at which an authorised request is received from the recipient body, in accordance with the relevant financial memoranda, adjusted for the amount unspent at 31 March.

1.13 Operating leases

Rentals under operating leases are charged to the Operating Cost Statement on a straight-line basis over the lease term.

1.14 Finance leases

Where assets are financed by leasing agreements that give rights approximating to ownership, the assets are treated as if they had been purchased outright. The amount capitalised is the fair value of the leased assets. The corresponding leasing commitments are shown as obligations to the lessor. Assets held under finance leases are depreciated over the shorter of the lease term and the useful life of equivalent owned assets.

1.15 Private Finance Initiative

The Department has contracts under the Government's Private Finance Initiative (PFI) for the provision of accounting, IT and building services. The accounting treatment of the contracts is in accordance with HM Treasury's guidance as outlined in Technical Note No 1 (revised) issued in July 1999.

Where the PFI operator bears the balance of the risks and rewards of ownership, the PFI payments are recorded as an operating cost.

Alternatively, where the Department bears the responsibility, the asset is recognised on the Balance Sheet, with the liability to pay for it accounted for as a finance lease. Where the Department has contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract by charge to the Operating Cost Statement.

See Notes 14 and 26 for further information.

1.16 Non-cash costs

Capital charge

A charge reflecting the cost of capital utilised by the Department is included in operating costs. The charge is at the Government's standard rate of 3.5% on the average net book value of the asset over the year with the following exceptions:

- for leasehold land and buildings, including dwellings, the charge will be calculated using opening balances plus additions at cost, less disposals at their opening balance sheet values, and
- the charge will be nil for amounts due to or from the Consolidated Fund, liabilities in respect of advances from the Contingencies Fund and cash holdings with the Office of Paymaster General.

The National Assembly for Wales recharge

During 2003-04 a number of Service Level Agreements were in existence with the National Assembly for Wales to provide management and administrative services for the Wales Office. The charge to the Wales Office for these services was apportioned by applying staff numbers. The agreements terminated on 1 April 2004 and future management and administrative support will be provided from within the Department and charged to Request for Resources 3 – Wales Office.

Other

Other non-cash costs included in the Operating Cost Statement are the external auditors' remuneration, which represents the cost of the audit of the financial statements carried out by the National Audit Office, and judicial salaries met from the Consolidated Fund.

1.17 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the Department discloses, for parliamentary reporting and accountability purposes, certain contingent liabilities where the likelihood of transfer of economic benefit is remote. These comprise:

- items over £100,000 (or lower where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by departmental Minute prior to the Department entering into the arrangement,
- all items, whether or not they arise in the normal course of business, over £100,000, or lower, where required by specific statute or where material in the context of the resource accounts, which are required by the Resource Accounting Manual to be noted in the resource accounts.

1.18 Value Added Tax

Irrecoverable VAT is charged to the relevant expenditure category, or if appropriate, capitalised. Income and expenditure are otherwise shown net of VAT.

1.19 Prior year comparatives

Prior year comparatives have been restated to reflect changes due to Machinery of Government transfers and departmental restructuring. These movements were all within the Public Sector (see Note 3).

Schedule 5 has been restated following the introduction of new objectives in April 2003.

1.20 Machinery of Government and the transfer of functions (see Note 3)

The Department accounts for the transfer of functions from one part of the public sector to another using merger accounting, as described in the Resource Accounting Manual.

The results and cash flows of all combining entities are presented from the start of the financial year in which the combination occurs and prior year comparatives are restated.

Assets and liabilities are not adjusted to their fair value on consolidation; rather their carrying values are combined, with the net effect of these adjustments shown as a movement on reserves. Appropriate adjustments to ensure uniformity of accounting policies are treated as prior year adjustments.

1.21 Third party assets

The Department and its executive agencies hold, as custodian or trustee, certain assets belonging to third parties. These assets are not recognised on Balance Sheet and are disclosed within Note 34 since neither the Department nor Government has a direct beneficial interest in them. For further details on these assets, see Note 34.

Any third party monies held at the Office of HM Paymaster General at 31 March are recognised as both cash at bank and creditors. See Note 19 and 20.

1.22 Consolidated Fund Extra Receipts (CFERs)

Consolidated Fund Extra Receipts balances are calculated on an accruals basis, unless stated otherwise.

Magistrates' courts fines and fees

The core Department accepts fines and fees imposed and collected in the magistrates' courts, for onward transmission to the Consolidated Fund. These receipts are deemed to be outside the scope of the Department's activities. The amount of fines and fees collected by the magistrates' courts and not paid over to the Department at 31 March is recognised as both a debtor to the Department and a creditor to the Consolidated Fund.

Scotland Office CFERs

The Department acts as an intermediary for collection of income from the Scottish Consolidated Fund. This represents excess funds collected from the Scottish Executive which, in accordance with the Scotland Act 1998 (Designation of Receipts) Order 2000, are to be surrendered to the Consolidated Fund.

Designated receipts for this purpose comprise:

- fines, forfeitures and fixed penalties,
- dividends on public dividend capital other than any public dividend capital of a National Health Service Trust established under section 12A of the National Health Service (Scotland) Act 1978,
- interest, other than interest on any loan to a National Health Service Trust established under section 12A of the National Health Service (Scotland) Act 1978, and
- sums received from the European Social Fund in respect of training expenditure incurred by Scottish Enterprise and Highlands and Islands Enterprise.

Scotland Office CFER balances are calculated on a cash basis for 2003-04 and the comparative year.

Wales Office CFERs

The Department acts as an intermediary for collection of income from the National Assembly for Wales for onward transmission to the Consolidated Fund. These amounts represent income received by the National Assembly for Wales which, in accordance with the Government for Wales Act 1998, can not be retained.

These include:

- interest earned on bank accounts held for the Wales Language Board, the Qualifications Curriculum and Assessment Authority for Wales, the Higher Education Funding Council, and the Wales Tourist Board,
- principal and interest repayments received in respect of housing loans and mortgages,
- payments received from Pembrokeshire Council as repayments for the Cleddau Bridge Scheme, and
- payments received from Cardiff and Vale NHS Trust for a car loan scheme.

National non-domestic rates (NNDR)

The Department collects NNDR from the National Assembly for Wales for surrender to the Consolidated Fund. In accordance with Annex 2 of the 2003-04 RAM, these transactions are outside the Department's accounting boundary.

1.23 Inter-departmental schemes

The Department participates in four schemes in conjunction with other Government departments. They are Safety Cameras, Automatic Number Plate Recognition, Warrant Enforcement and Confiscation Orders.

Safety Cameras

Under this scheme, receipts of safety camera fixed penalties from all magistrates' courts are paid to the Department for Transport (DfT) to offset the cost of maintenance. The DfT surrenders amounts over and above maintenance costs to the Consolidated Fund.

Automatic Number Plate Recognition

This is a new scheme, still in its pilot stage. Receipts from fixed penalty notices issued in respect of the scheme and collected by specific magistrates' courts are paid to the Home Office. They are then used in the identification and recovery of stolen vehicles and, generally, in the reduction of crime.

Warrant Enforcement

The receipts under this scheme go to enforcing the collection of financial penalties, community penalties and maintenance warrants in England and Wales. This was brought about by the high incidence of non-payment of fines and inadequate funding following the transfer of enforcement to magistrates' courts from the police.

From 2003-04 an approved amount of the income is retained by the Department as appropriations in aid and a small proportion paid to the National Assembly for Wales and the Office of the Deputy Prime Minister.

Confiscation Orders

This scheme is underpinned by the Proceeds of Crime Act (2002), the Criminal Justice Act (1988) and the Drug Trafficking Offences Act (1988). As with the other schemes, the receipts come from designated magistrates' courts and are paid over entirely to the Home Office to combat drug related crime.

2 Change in estimation technique

With effect from 2003-04 several material changes have been made to the estimating techniques used to arrive at disclosures throughout the resource accounts.

Valuation of tangible and intangible fixed assets

Balance Sheet values for tangible fixed assets are now recalculated at the Balance Sheet date. In previous years values were reviewed at 30 September.

Depreciation

Depreciation of leasehold land and buildings is based on opening balance sheet values. It was previously based on closing balances. (See Note 1.4)

Cost of capital

The cost of capital charge in respect of land and buildings is also now based on opening Balance Sheet values, adjusted as follows:

- plus additions at cost,
- less disposals at the value in the opening Balance Sheet, plus any subsequent capital expenditure prior to disposal,
- less impairments, and
- less depreciation, or impairment charge.

Until 31 March 2003 HM Treasury set the rate for the calculation of the cost of capital charge at 6%. It has now been changed to 3.5%.

Early departure costs

The change in the discount rate from 6% to 3.5% will result in an increase to the provision in the Balance Sheet. The effect of this change has been included in the unwinding of discount disclosed in Note 21.

3 Transfer of functions

Responsibility for the Scotland Office and the Wales Office was transferred to the Department for Constitutional Affairs as part of the Machinery of Government changes implemented on 12 June 2003. The transfer has been accounted for as a business combination, using merger accounting principles in accordance with the Resource Accounting Manual (RAM). The results and cash flows related to the transferred services have been brought into account from the start of the financial year. Prior year comparatives have been restated.

3.1 Analysis of the Operating Costs Statement between the functions transferred and other functions for the year ended 31 March 2004

The share of the net operating cost for the year attributable to the transferred functions was as follows:

	Transferred Function			2003-04 Total £000
	Scotland Office £000	Wales Office £000	DCA Other £000	
Administration Costs:				
Staff costs	4,192	1,913	313,082	319,187
Other administration costs	2,984	1,695	455,421	460,100
Gross administration costs	7,176	3,608	768,503	779,287
Operating income	(893)	(46)	(18,875)	(19,814)
Net Administration Costs	6,283	3,562	749,628	759,473
Programme Costs				
Current Grants				
Expenditure	17,058,295	9,606,147	2,526,099	29,190,541
	17,058,295	9,606,147	2,526,099	29,190,541
Capital Grants				
Expenditure	–	–	31,063	31,063
	–	–	31,063	31,063
Other Disbursements				
Judicial salaries	–	–	284,768	284,768
Other expenditure	–	29	161,100	161,129
Less: income	–	–	(432,095)	(432,095)
	–	29	13,773	13,802
Net Programme Costs	17,058,295	9,606,176	2,570,935	29,235,406
NLF interest payable	130,082	1,873	–	131,955
NLF interest receivable	(130,082)	(1,873)	–	(131,955)
Net Operating Cost (Schedule 2)	17,064,578	9,609,738	3,320,563	29,994,879

3.2 Analysis of the (restated) Operating Cost Statement between the functions transferred and other functions for the year ended 31 March 2003

The share of the restated net operating cost for the prior year that would have been attributable to the transferred functions was as follows:

	Transferred Function			2002-03 Total As restated £000
	Scotland Office	Wales Office	DCA Other	
	£000	£000	£000	
Administration Costs:				
Staff costs	4,368	1,804	285,473	291,645
Other administration costs	3,349	1,730	476,987	482,066
Gross administration costs	7,717	3,534	762,460	773,711
Operating income	(915)	(9)	(15,230)	(16,154)
Net Administration Costs	6,802	3,525	747,230	757,557
Programme Costs				
Current Grants				
Expenditure	17,985,932	8,998,940	2,323,055	29,307,927
	<u>17,985,932</u>	<u>8,998,940</u>	<u>2,323,055</u>	<u>29,307,927</u>
Capital Grants				
Expenditure	–	–	36,156	36,156
	<u>–</u>	<u>–</u>	<u>36,156</u>	<u>36,156</u>
Other Disbursements				
Judicial salaries	–	–	251,550	251,550
Other expenditure	–	–	122,509	122,509
Less: income	–	–	(393,589)	(393,589)
	<u>–</u>	<u>–</u>	<u>(19,530)</u>	<u>(19,530)</u>
Net Programme Costs	17,985,932	8,998,940	2,339,681	29,324,553
NLF interest payable	87,933	1,742	–	89,675
NLF interest receivable	(87,933)	(1,742)	–	(89,675)
Net Operating Cost (Schedule 2)	17,992,734	9,002,465	3,086,911	30,082,110

3.3 Analysis of the net assets between the functions transferred and other functions for the year ended 31 March 2004

The share of the net assets for the year attributable to the transferred functions was as follows:

	Transferred Function			31 March 2004	
	Scotland Office £000	Wales Office £000	DCA Other £000	£000	£000
Fixed Assets					
Tangible assets	1,733	1,603	1,729,179	1,732,515	
Investments	975,987	11,955	–	987,942	
	977,720	13,558	1,729,179		2,720,457
Current Assets					
Debtors	18,860	2,572	185,109	206,541	
Cash at bank and in hand	60,090	1	1,495,951	1,556,042	
	78,950	2,573	1,681,060	1,762,583	
Current Liabilities					
Creditors (amounts falling due within one year)	(99,015)	(2,609)	(1,664,767)	(1,766,391)	
Net Current Assets	(20,065)	(36)	16,293		(3,808)
Total Assets less Current Liabilities	957,655	13,522	1,745,472		2,716,649
Non Current Liabilities					
Creditors (amounts falling due after more than one year)	(955,603)	(11,915)	(427)	(967,945)	
Provisions for liabilities and charges	–	–	(33,571)	(33,571)	
	(955,603)	(11,915)	(33,998)		(1,001,516)
	2,052	1,607	1,711,474		1,715,133
Taxpayers' Equity					
General fund	1,475	1,080	993,105		995,660
Revaluation reserve	577	527	718,369		719,473
	2,052	1,607	1,711,474		1,715,133

3.4 Analysis of the (restated) net assets between the functions transferred and other functions for the year ended 31 March 2003

The share of the net assets for the prior year that would have been attributable to the transferred functions was as follows:

	Transferred Function			31 March 2003	
	Scotland Office	Wales Office	DCA Other	As restated	
	£000	£000	£000	£000	£000
Fixed Assets					
Tangible assets	1,935	1,679	1,583,793	1,587,407	
Investments	1,033,531	11,998	–	1,045,529	
	1,035,466	13,677	1,583,793		2,632,936
Current Assets					
Debtors	23,341	5,127	99,781	128,249	
Cash at bank and in hand	136	5,063	171,926	177,125	
	23,477	10,190	271,707	305,374	
Current Liabilities					
Creditors (amounts falling due within one year)	(55,597)	(10,295)	(285,826)	(351,718)	
Net Current Assets	(32,120)	(105)	(14,119)		(46,344)
Total Assets less Current Liabilities	1,003,346	13,572	1,569,674		2,586,592
Non Current Liabilities					
Creditors (amounts falling due after more than one year)	(1,001,787)	(11,955)	(7)	(1,013,749)	
Provisions for liabilities and charges	–	–	(8,547)	(8,547)	
	(1,001,787)	(11,955)	(8,554)		(1,022,296)
	1,559	1,617	1,561,120		1,564,296
Taxpayers' Equity					
General fund	984	1,045	962,627		964,656
Revaluation reserve	575	572	598,493		599,640
	1,559	1,617	1,561,120		1,564,296

4 Staff and judiciary numbers and related costs

4.1 Average number of persons employed

The average number of full-time equivalent persons employed during the year is shown in the table below. These figures include those working in the Department as well as in agencies and other bodies included within the consolidated departmental resource accounts.

	2003-04							2002-03
	Total	Ministers	Special Advisers	Senior Management	Officials	Staff on Inward Secondment	Agency, Temporary and Contract Staff	As restated Number
RfR 1								
Objective 1	5,178.18	1.45	0.57	1.78	4,907.27	37.67	229.44	4,893.00
Objective 2	6,225.74	1.78	0.70	2.09	5,992.82	7.32	221.03	6,002.00
Objective 3	2,400.51	0.64	0.25	0.90	2,182.34	3.97	212.41	2,174.00
Objective 4	258.32	0.05	0.02	0.55	164.77	8.52	84.41	126.00
Objective 5	151.18	0.02	0.01	0.15	78.13	0.21	72.66	43.00
Objective 6	460.42	0.06	0.03	0.67	218.54	0.31	240.81	237.00
	<u>14,674.35</u>	<u>4.00</u>	<u>1.58</u>	<u>6.14</u>	<u>13,543.87</u>	<u>58.00</u>	<u>1,060.76</u>	<u>13,475.00</u>
RfR 2	110.75	1.60	–	–	103.40	1.75	4.00	114.00
RfR 3	46.00	0.80	–	–	0.33	44.87	–	41.00
	<u>14,831.10</u>	<u>6.40</u>	<u>1.58</u>	<u>6.14</u>	<u>13,647.60</u>	<u>104.62</u>	<u>1,064.76</u>	<u>13,630.00</u>

4.2 Staff costs

The aggregate payroll costs of these persons were as follows:

Administration:	2003-04				2002-03
	Total £000	Officials £000	Ministers £000	Special Advisers £000	As restated Total £000
Wages and salaries	269,049	268,607	258	184	248,347
Social security costs	17,116	17,076	23	17	13,977
Other pension costs	32,478	32,478	–	–	29,230
	<u>318,643</u>	<u>318,161</u>	<u>281</u>	<u>201</u>	<u>291,554</u>
Inward secondments	1,071	1,071	–	–	128
	<u>319,714</u>	<u>319,232</u>	<u>281</u>	<u>201</u>	<u>291,682</u>
Less: recoveries in respect of outward secondments	(527)	(527)	–	–	(37)
	<u>319,187</u>	<u>318,705</u>	<u>281</u>	<u>201</u>	<u>291,645</u>

Wages and salaries include £19.154m (2002-03 £16.631m) relating to agency staff costs.

The comparative figure has been restated to reflect Machinery of Government changes relating to Family Policy staff transferred to DfES.

The remuneration costs of Special Advisors to the Scotland Office and Wales Office have been included as Officials in Note 4.1 and Note 4.2.

4.3 Salary and pension entitlements

The salary, pension entitlements and the value of any taxable benefits in kind of the Ministers and senior managers of the Department were as follows:

2003-04 Ministers	Ministerial Salary received	Benefits in kind (rounded to the nearest £100)	Real increase in pension at age 65	Total accrued pension at age 65 at 31 March 2004	CETV at 31 March 2003	CETV at 31 March 2004	Real increase in CETV after adjustment for contributions, inflation and changes in market investment factors
	£000	£100	£000	£000	£000	£000	£000
Ministers from 12th June 2003							
Lord Falconer of Thoroton Secretary of State and Lord Chancellor	75-80	-	-	-	-	-	-
Lord Filkin CBE Parliamentary Under Secretary	60-65	-	0-2.5	0-5	30	44	8
David Lammy MP Parliamentary Under Secretary	20-25	-	0-2.5	0-5	4	7	1
Christopher Leslie MP Parliamentary Under Secretary	15-20	-	0-2.5	0-5	5	9	1
Dr Lynda Clark QC MP Advocate General for Scotland	45-50	-	0-2.5	5-10	59	79	11
Anne McGuire MP Parliamentary Under Secretary For Scotland	20-25	-	0-2.5	0-5	27	36	5
Don Touhig Esq MP Parliamentary Under Secretary for Wales	20-25	-	0-2.5	0-5	23	31	5
Ministers to 11th June 2003							
Lord Irvine of Lairg Former Lord Chancellor	30-35	-	-	-	-	-	-
Baroness Scotland of Asthal QC Parliamentary Secretary	20-25	-	0-2.5	5-10	44	48	2
Rosie Winterton MP Parliamentary Secretary	5-10	-	0-2.5	0-5	9	10	1
Yvette Cooper MP Parliamentary Secretary	5-10	-	0-2.5	0-5	12	13	-

2002-03	Ministerial salary received	Benefits in kind (rounded to the nearest £100)	Real increase in pension at age 65	Total accrued pension at age 65 at 31 March 2003
Ministers	<u>£000</u>	<u>£100</u>	<u>£000</u>	<u>£000</u>
Lord Irvine of Lairg				
Lord Chancellor	155-160	-	-	-
Baroness Scotland of Asthal QC				
Parliamentary Secretary	90-95	-	0-2.5	0-5
Rosie Winterton MP				
Parliamentary Secretary	25-30	-	0-2.5	0-5
Yvette Cooper MP				
Parliamentary Secretary	25-30	-	0-2.5	0-5

As the House of Commons or House of Lords and not the Department meets the Exchequer contribution to the cost of pension provision for all Ministers, the pension details are included in the Resource Account on a 'for information' basis.

Pension benefits for Ministers are provided by the Ministerial Pension Scheme (MPS) which is part of the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutory based (made under Statutory Instrument SI 1993 No 3253, as amended).

Those Ministers who are Members of Parliament are also entitled to an MP's pension under the PCPF. The arrangements for Minister provided benefits is on an 'average salary' basis with either a 1/50th or 1/40th accrual rate, taking account of all service as a Minister. (The accrual rate has been 1/40th since 15 July 2002 but Ministers, in common with all other members of the PCPF, can opt to increase their accrual rate from 5 July 2001, or retain the former 1/50th accrual rate and the lower rate of employee contribution).

Benefits for Ministers are payable at the same time as MPs' benefits become payable under the PCPF or, for those who are not MPs, on retirement from ministerial office on or after age 65. Pensions are increased annually in line with changes in the Retail Prices Index. Members pay contributions of 6% of their ministerial salary if they have opted for the 1/50th accrual rate, and 9% if they have opted for the 1/40th accrual rate. There is also an employer contribution paid by the Exchequer representing the balance of cost. This is currently 24% of the ministerial salary.

No Ministers retired early due to ill health during the year. In the event of retirement because of serious ill health, the MPS pension is brought into payment immediately. On death, pensions are payable to the surviving spouse at a rate of 5/8th of the Minister's pension. On death in service the MPS provides for a lump sum gratuity of three times the ministerial salary. On retirement it is possible to commute part of the pension for a lump sum.

This presentation is based on payments made by the Department and thus recorded in these accounts. In respect of Ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration. The salary cost for their services as MPs and various allowances to which they are entitled was £56,358 (2002-03 £55,118) which was borne centrally. However, the arrangement for Ministers of the House of Lords is different in that they do not receive a salary but rather an additional remuneration which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in the figures above.

The Lord Chancellor in his role as head of the judiciary, is paid by the Consolidated Fund and not directly by the Department. As a result, his salary is disclosed with payroll costs of the judiciary (Note 4.4) and not with other Ministers in Staff costs (Note 4.2). Lord Falconer waived his entitlement to further remuneration in respect of duties as the Secretary of State and Lord Chancellor which would otherwise be borne by the Department.

Both Lord Chancellors have pension and CETV balances but as holders of one of the 'three great offices of state', they are not required by Cabinet Office regulations to disclose pension information in the Department's Resource Accounts.

2003-04 Senior Managers	Salary, including performance pay £000	Benefits in kind (rounded to the nearest £100)	Real increase in pension and related lump sum at age 60 £000	Total accrued pension at age 60 and related lump sum at 31 March 2004 £000	CETV at 31 March 2003 £000	CETV at 31 March 2004 £000	Real increase
							in CETV after adjustment for contributions, inflation and changes in market investment factors £000
			2.5-5 plus 7.5-10	45-50 plus 140-145			
Sir Hayden Phillips Permanent Secretary	155-160	£10,200	lump sum	lump sum	444	887	51
			7.5-20 plus 22.5-25	55-60 plus 165-170			
Ian Magee Chief Executive, Operations	135-140	£8,600	lump sum	lump sum	846	1,019	138
			0-2.5 plus 5-7.5	45-50 plus 135-140			
Jonathan Spencer Director General, Clients and Policy	115-120	–	lump sum	lump sum	705	771	32
			0-2.5 n/a	0-5 n/a			
Simon Ball Director General, Finance	180-185	–	lump sum	lump sum	3	19	13
			0-2.5 plus 5-7.5	50-55 plus 150-155			
John Lyon Director General, Legal and Judicial Services	120-125	–	lump sum	lump sum	703	770	29
			0-2.5 n/a	0-5 n/a			
Sir Ron De Witt Executive Director	5-10	£6,942	lump sum	lump sum	–	2	2
Trevor Hall Non-executive Director, Equality & Diversity Advisor	10-15	–	–	–	–	–	–

Where a director has joined or left the Corporate Board during the year, their salary reflects only that which they received whilst a member of the Board. Where they were a member of the Board for only part of the year but have been employed by the Department throughout, their annual salary has been reported on a 'days served' basis. Accrued pension represents the director's total future entitlement to benefits payable from the Civil Service pension schemes based on reckonable service at 31 March. No adjustment has been made for service in other departments or while not a board member.

Simon Ball is employed on a fixed term contract. His contract is due to expire on 20 January 2005.

The Department appointed two additional executive directors, Clare Dodgson and Sir Ron De Witt, and three additional non-executive directors, Sir Peter Bonfield, Hon. Barbara Thomas and the Rt. Hon. Lord Justice Judge in March 2004.

During 2003-04 Clare Dodgson had no salary, benefits in kind or pension entitlements attributable to the Department. As Chief Executive of the Legal Services Commission, her salary and pension entitlements are disclosed in the Legal Services Commission Annual Report. Sir Ron De Witt joined the Department on 23 February 2004. His salary has been apportioned to reflect only the time whilst a member of the Board.

While Sir Peter Bonfield and Hon. Barbara Thomas will be entitled to £10,000 per annum for their attendance at board meetings, they have received no remuneration during 2003-04. The Rt. Hon. Lord Justice Judge, Deputy Chief Justice, will receive no additional remuneration for his role on the board.

Trevor Hall, who is a non-executive director, received remuneration of £12,000 (2002-03 £23,531). This includes payment for his role as non-executive director as well as his role as equality and diversity advisor to the Permanent Secretary.

2002-03	Salary	Benefits in kind (rounded to the nearest £100)	Real increase in pension at age 60	Total accrued pension at age 60 at 31 March 2003
	£000	£000	£000	£000
Senior Managers				
Sir Hayden Phillips Permanent Secretary	145-150	£8,800	2.5-5	60-65
Ian Magee Chief Executive of Operations	120-125	£3,200	2.5-5	40-45
Jonathan Spencer Director General, Clients and Policy	110-115	–	0-2.5	35-40
Simon Ball * Director General, Finance	25-30	–	0-2.5	0-5
John Lyon Director General, Legal and Judicial Services	10-15	–	2.5-5	45-50
Jenny Williams Director General, Judicial Group	90-95	–	2.5-5	40-45
Jenny Rowe Director, Corporate Services	70-75	–	0-2.5	25-30
Paul Jenkins Director, Legal Advisors Group	80-85	–	2.5-5	25-30
Allan Percival Director, Communications	65-70	–	0-2.5	25-30
Dave Nooney * Director, Modernising Government	75-80	–	0-2.5	40-45
Trevor Hall Non-executive Director	20-25	–	–	–

* member opted to join the premium pension scheme and pension details assume maximum commutation of pension for lump sum.

Salary

Salary includes gross salary, performance pay or bonuses, overtime, reserved rights to London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. Sir Hayden Phillips had the use of a car provided by the Government Car Service. Ian Magee had the private use of an allocated car in the circumstances permitted by the Civil Service Management Code until 30 September 2003, after which he had a car supplied by the Government Car Service.

The information given above relates to the Ministers and senior managers of the Department. Equivalent information relating to the Department's Supply-financed agencies is given in their separate accounts.

Pension

Pension benefits are provided through the Civil Service pension 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 Price Index. New entrants after 1 October 2002 may choose between membership of **premium** or joining a good quality 'money purchase' stakeholder 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 salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). **Classic plus** is essentially 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 they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

No employer contributions to **partnership pension account** have been made by the Department on behalf of senior management.

Further details about the Civil Service pension arrangements are available at:
www.civilservice-pensions.gov.uk

2003-04 is the first year for disclosure of minister and senior management cash equivalent transfer value (CETV) accrued at the beginning and the end of the reporting period. Also disclosed is the real increase in CETV effectively funded by the employer. This takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including 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.

A Cash Equivalent Transfer Value (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 arrangement to secure pension benefits in another pension scheme or 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 from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service Pension arrangements, and for which the civil superannuation request for resources 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. Transfer Values are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Retirement due to ill health

During 2003-04 26 persons retired early on ill health grounds. The total additional accrued pension liabilities in the year amounted to £38,271. Due to data collection difficulties this information does not include Wales Office and Scotland Office staff, or a prior year comparative.

4.4 Payroll costs of the judiciary

Members of the judiciary are independent of the Department. Their payroll costs are met either from the Consolidated Fund (senior judiciary) or by the Department through Supply. Salary costs met directly from the Consolidated Fund, though not part of the Department's voted expenditure, are relevant costs for resource accounting purposes. All payroll costs of the judiciary are included in these accounts regardless of who meets those costs.

Judicial:	2003-04		Paid from Consolidated Fund	2002-03
	Total	Paid from voted resources		Total
	£000	£000	£000	£000
Wages and salaries	212,039	109,910	102,129	188,607
Social security costs	24,340	12,477	11,863	19,669
Other pension costs:				
actual	48,389	48,389	–	72
notional	–	–	–	43,202
	284,768	170,776	113,992	251,550

4.5 Judicial superannuation scheme

Pension benefits for the judiciary are provided through the Judicial Pension Scheme for which separate Resource Accounts are prepared. This is an unfunded defined benefit scheme. A full actuarial valuation was carried out as at 31 March 2001. The next valuation scheduled to be carried out as at 31 March 2005. The annual pension is calculated at 1/40th of the highest of the last three years pensionable pay multiplied by each year of reckonable service. Pension benefits are payable at age 65 subject to five years' service.

From 1 April 2003 the employer's pension costs associated with the payment of judicial salaries became a cash, rather than a notional cost. These costs are now paid directly by the Department whereas in the prior year the notional pension costs were attributable to the Consolidated Fund.

For 2003-04 the pension costs for those members paid from voted resources was £48.389m (2002-03 £14.999m from voted resources and £28.275m attributable to the Consolidated Fund). These are calculated using a superannuation rate of 29.25% (2002-03 28.5%), of which 0.25% is an administrative charge, retained by the Department as appropriations in aid.

Contribution rates are supplied by the Government Actuary's Department.

The Department has separate pension schemes for the Law Commissioners and the Immigration Adjudicators. The value of the required fund is calculated by the Government Actuary's Department on the same basis as for the PCSPS and a provision set up to maintain the fund at the required level.

5 Non staff administration costs

	2003-04		2002-03 As restated	
	£000	£000	£000	£000
Rentals under operating leases:				
property rents	46,756		40,319	
hire of plant and machinery	871		1,732	
other operating leases	127		85	
		47,754		42,136
Finance charges on leased assets		94		13
PFI service charges:				
off-balance sheet contracts		33,278		31,682
on-balance sheet contracts		62,461		30,741
Research and development expenditure		1,029		881
Staff training and development costs		5,503		3,953
Travel, subsistence and hospitality		6,453		5,648
Accommodation, maintenance and utilities		114,173		111,710
Non-cash costs:				
depreciation and amortisation of fixed assets	51,613		43,260	
downward revaluation of assets below depreciated historic cost	6,999		9,428	
(profit)/loss on disposal of fixed assets	(23,874)		729	
PFI contracts deferred benefit	2,276		15,335	
increase in provisions	1,614		1,585	
increase in bad debt provision	17		41	
Libra adjustment	–		2,396	
cost of capital	54,484		92,907	
notional charge for National Assembly for Wales services	361		416	
notional rent	1,354		–	
external auditors' remuneration and expenses	542		445	
		95,386		166,542
Other expenditure		93,969		88,760
		460,100		482,066

The cost of capital charge is recognised in full as an administration cost.

6 Net programme costs

	2003-04		2002-03 As restated	
	£000	£000	£000	£000
Request for Resources 1				
Staff Costs				
Judicial salaries		284,768		251,550
Current grants and other current expenditure:				
Grant to Legal Services Commission in respect of CLS and CDS	2,084,190		1,912,140	
Grant to local authorities in respect of magistrates' courts	339,565		318,630	
Grant in aid to Legal Services Commission	88,601		78,677	
Other grants in aid	<u>13,743</u>		<u>13,608</u>	
	2,526,099		2,323,055	
Capital Grants:				
Grant to local authorities in respect of magistrates' courts	27,847		35,071	
Legal Services Commission	<u>3,216</u>		<u>1,085</u>	
	31,063		36,156	
Other Disbursements:				
Judicial travel, subsistence and hospitality	6,560		5,644	
Other judicial costs	14,935		14,494	
Juror costs	39,521		40,105	
Court reporting	7,430		7,353	
Costs from central funds	41,093		39,535	
Other expenditure	26,688		15,194	
Non-cash costs:				
increase in pension provision	198		184	
increase in other provision	<u>24,675</u>		<u>-</u>	
	161,100	<u>2,718,262</u>	122,509	<u>2,481,720</u>
		3,003,030		2,733,270
Less: programme income		<u>(432,095)</u>		<u>(393,589)</u>
		2,570,935		2,339,681
Request for Resources 2				
Grant to the Scottish Consolidated Fund	17,058,050		17,985,679	
Other expenditure	<u>245</u>		<u>253</u>	
		17,058,295		17,985,932
Request for Resources 3				
Funding of the National Assembly for Wales	9,606,147		8,998,847	
Other expenditure	<u>29</u>		<u>93</u>	
		<u>9,606,176</u>		<u>8,998,940</u>
		<u>29,235,406</u>		<u>29,324,553</u>

7 Analysis of income payable to the Consolidated Fund

The following income relates to the Department and is payable to the Consolidated Fund (cash receipts are shown in italics):

	2003-04 Forecast		2003-04 Outturn	
	Income	<i>Receipts</i>	Income	<i>Receipts</i>
	£000	£000	£000	£000
Operating income and receipts – excess A-in-A	–	–	1,463,738	<i>1,463,738</i>
Non operating income and receipts – excess A-in-A	–	–	1,504	<i>1,504</i>
Subtotal	–	–	1,465,242	<i>1,465,242</i>
Operating income and receipts not classified as A-in-A	–	–	1,572	1,572
Other amounts collectable on behalf of the Consolidated Fund	275,551	<i>275,551</i>	214,836	<i>221,207</i>
	275,551	275,551	1,681,650	1,688,021

As a result of the Machinery of Government changes £18.529bn was transferred from the Scotland Office to the Department as appropriations in aid and is reflected within Request for Resources 2 in Schedule 1. Appropriations in aid can only be utilised up to the lower of the Estimate limit and the Gross Expenditure outturn. The Gross Expenditure outturn for Request for Resource 2 was £17.065bn and the Estimate limit was £18.529bn. As a result there was excess appropriations in aid on Request for Resources 2 of £1.464bn which is payable to the Consolidated Fund.

8 Income and appropriations in aid

Operating income not appropriated in aid (i.e. surrenderable to the Consolidated Fund) is analysed for resource budget purposes between that which is included in public expenditure and that which is not. In 2003-04 all operating income not classified as A-in-A was within public expenditure.

8.1 Net resource outturn (Schedule 1)

	2003-04	2002-03 As restated
	£000	£000
Appropriated-in-aid		
Request for resources 1 – Core Department	449,398	404,935
Request for resources 2 – Scotland Office	17,065,470	915
Request for resources 3 – Wales Office	9,306,650	9
	26,821,518	405,859

8.2 Operating Cost Statement (Schedule 2)

	2003-04	2002-03
	£000	£000
Schedule 1 (see Note 8.1 above)	26,821,518	405,859
Less: Machinery of Government transfer of Estimate cover	(27,834,919)	–
Add: Payable to the Consolidated Fund – excess A-in-A	1,463,738	–
Add: Payable to the Consolidated Fund – income not A-in-A	1,572	3,884
	451,909	409,743

See Note 7 for explanation of £1.463bn excess appropriations in aid.

Operating income can be further analysed as follows:

	2003-04		2002-03 As restated	
	£000	£000	£000	£000
Administration:				
Allowable within administration cost limits	19,814		16,154	
		19,814		16,154
Programme:				
Fees and charges		432,095		393,589
Operating income for Schedule 2		451,909		409,743

Other fees and charges include £420.134m from external customers (2002-03 £388.241m) and £11.961m from other government departments (2002-03 £5.348m).

Included in administration income is rental income from public agencies totalling £0.267m (2002-03 £0.445m) and rental income from non-government bodies totalling £0.341m (2002-03 £0.102m). Rental income comprises amounts paid by minor occupiers of the Estate.

8.3 Fees and charges

Of total income received, the following relates to services provided to external and public sector customers on a full or partial cost recovery basis:

	2003-04			2002-03		
	Income £000	Full cost £000	Deficit £000	Income £000	Full cost £000	Deficit £000
Court Service						
Civil business	344,108	395,393	(51,285)	319,577	396,734	(77,157)
Lands Tribunal	223	727	(504)	211	544	(333)
Court Funds Office	8,564	8,564	–	7,748	7,748	–
Public Guardianship Office	12,302	19,982	(7,680)	9,896	22,100	(12,204)
Official Solicitor and Public Trustee						
Litigation	560	3,748	(3,188)	441	2,722	(2,281)
Trust and Estates	3,597	6,596	(2,999)	2,943	6,847	(3,904)
	369,354	435,010	(65,656)	340,816	436,695	(95,879)

The Department is working towards the position of full cost recovery.

New Fees Amendment Orders were introduced by the Court Service on 1 April 2003, following nine principles set out in Parliament on 19 November 1998. These principles are: fees should not prevent access to justice; litigants of modest means should be protected; fees should match the costs of the relevant service; the pay-as-you-go system should be extended; issue and enforcement fees should reflect the value of the claim; flat rate fees reflecting the cost of the stage or application should be applied at other charging points; fees should be set on the basis of average, not actual, costs; fees should be paid by the claimant, or by the party making the application; and fees should be paid in advance.

Further information regarding fee targets, rates achieved and subsidies are provided in the relevant body's published reports and accounts.

9 Administration cost limit

The outturn within the administration costs control regime shown against administration cost limit is as follows:

	2003-04		2002-03 As restated	
	Outturn £000	Limits £000	Outturn £000	Limits £000
Request for resources 1 – Core Department	749,628	876,424	747,230	799,889
Request for resources 2 – Scotland Office	6,283	6,552	6,802	6,702
Request for resources 3 – Wales Office	3,562	3,331	3,525	3,303
Total within administration cost control	759,473	886,307	757,557	809,894
Administration income allowable within administration cost limit	19,814		16,154	
Total administration outturn (Note 11)	779,287		773,711	

10 Reconciliation of net operating cost to net resource outturn

	2003-04	2002-03 As restated
	£000	£000
Net operating cost	29,994,879	30,082,110
Add: Consolidated Fund Extra Receipts (CFERs) allowable as operating income	1,572	3,884
Add: excess appropriations in aid	1,463,738	–
Less: non-Supply expenditure	(113,992)	(134,259)
Less: Machinery of Government – net transfer of Estimate cover	(27,731,197)	87,552
Less: HM Land Registry – Capital Modernisation Fund	–	(1,100)
Net resource outturn	3,615,000	30,038,187

Net operating cost is the total of expenditure and income appearing in the Operating Cost Statement (Schedule 2). Net resource outturn is the total of those elements of expenditure and income that are subject to parliamentary approval and included in the Department's Supply Estimate. The outturn against the Estimate is shown in the Summary of Resource Outturn (Schedule 1).

11 Analysis of resource outturn by function and reconciliation to Operating Cost Statement

	Admin	Other	Grants	Gross	A-in-A	Net Total	Estimate	Net total outturn compared with Estimate	Prior year outturn
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Request for Resources 1									
Headquarters and associated offices	246,520	15,897	2,326	264,743	(11,538)	253,205	248,585	(4,620)	153,568
Judicial Pensions Administration	500	-	-	500	(500)	-	-	-	-
Court Service	500,516	235,631	-	736,147	(356,208)	379,939	449,031	69,092	446,008
Public Guardianship Office	19,761	205	-	19,966	(12,158)	7,808	1,853	(5,955)	14,071
HM Land Registry Invest to Save	-	690	-	690	-	690	690	-	1,439
HM Land Registry Capital Modernisation Fund	-	13,900	-	13,900	-	13,900	13,900	-	-
Magistrates' courts grants	-	-	331,847	331,847	(59,588)	272,259	288,983	16,724	258,545
Magistrates' courts capital grants	-	-	27,847	27,847	-	27,847	42,455	14,608	35,071
Magistrates' courts grants on loan charges	-	-	7,718	7,718	-	7,718	16,500	8,782	16,406
Legal Services Commission:									
- Administration	-	-	91,819	91,819	-	91,819	85,594	(6,225)	73,422
- Criminal Defence Service	-	-	1,179,066	1,179,066	-	1,179,066	1,191,502	12,436	1,095,575
- Community Legal Service	-	-	905,124	905,124	-	905,124	869,519	(35,605)	817,303
Costs from Central Funds	-	65,768	-	65,768	-	65,768	45,000	(20,768)	39,535
Office of the Information Commissioner	-	-	11,200	11,200	(9,406)	1,794	4,000	2,206	4,493
Payments to DFES in relation to Machinery of Government changes	-	103,722	-	103,722	-	103,722	103,722	-	87,552
Receipts from ODPM in relation to Machinery of Government changes	-	-	-	-	-	-	(927)	(927)	-
Bulk Pension payments	1,206	-	-	1,206	-	1,206	1,104	(102)	-
Net Resource Outturn	768,503	435,813	2,556,947	3,761,263	(449,398)	3,311,865	3,361,511	49,646	3,042,988
Request for Resources 2									
Scotland Office	7,176	-	-	7,176	(893)	6,283	6,552	269	6,802
Boundary Commission for Scotland	-	245	-	245	-	245	300	55	253
Grant payable to the Scottish Consolidated fund	-	-	17,058,050	17,058,050	-	17,058,050	19,300,000	2,241,950	17,985,679
Payment from the Scotland Office for Machinery of Government transfers	-	-	-	-	(17,064,577)	(17,064,577)	(18,528,278)	(1,463,701)	-
Net Resource Outturn	7,176	245	17,058,050	17,065,471	(17,065,470)	1	778,574	778,573	17,992,734
Request for Resources 3									
Office of the Secretary of State for Wales	3,608	29	-	3,637	(46)	3,591	3,424	(167)	3,525
Grant payable to the National Assembly for Wales	-	-	9,606,147	9,606,147	-	9,606,147	9,691,475	85,328	8,998,940
Payment from the Wales Office for Machinery of Government changes	-	-	-	-	(9,306,604)	(9,306,604)	(9,306,641)	(37)	-
Net Resource Outturn	3,608	29	9,606,147	9,609,784	(9,306,650)	303,134	388,258	85,124	9,002,465
Total Net Resource Outturn	779,287	436,087	29,221,144	30,436,518	(26,821,518)	3,615,000	4,528,343	913,343	30,038,187
Non Supply expenditure	-	113,992	-	113,992	-	113,992	-	-	-
Non A-in-A operating income	-	-	-	-	(1,572)	(1,572)	-	-	-
Machinery of Government changes	-	(103,722)	-	(103,722)	27,834,919	27,731,197	-	-	-
Excess appropriations in aid	-	-	-	-	(1,463,738)	(1,463,738)	-	-	-
Net Operating Cost	779,287	446,357	29,221,144	30,446,788	(451,909)	29,994,879			

This note analyses the total net resource outturn into requests for resources and then into functions. The net resource outturn is the total of expenditure and income to be compared against the Estimate for net total resources in Schedule 1. These functions will not correspond to departmental objectives which represent a disaggregation of the Department's aims. These in turn give direction to the organisation's activities and are expressed in a way that allows their achievement to be assessed. This analysis is required for control purposes and to obtain parliamentary approval.

12 Analysis of net operating cost by spending body

This analyses funding by the Department to the relevant spending body.

	2003-04		2002-03
	Budget	Outturn	As restated
	£000	£000	Outturn £000
Spending body:			
Core Department	309,279	269,119	139,017
Scotland Office	19,306,852	17,064,578	17,992,734
Wales Office	9,694,899	9,609,738	9,002,465
Court Service	537,031	552,073	587,808
Public Guardianship Office	1,853	13,385	15,094
Non-departmental public bodies	2,150,615	2,178,162	1,990,191
Local authorities	347,938	307,824	354,801
Net Operating Cost	32,348,467	29,994,879	30,082,110

13 Analysis of capital expenditure, financial investment and associated A-in-A

	2003-04			2002-03 As restated		
	Capital Expenditure	Loans	Non operating A-in-A	Capital Expenditure	Loans	Non operating A-in-A
	£000	£000	£000	£000	£000	£000
Request for Resources 1						
Net book value	95,716	–	(36,003)	26,830	–	(4,923)
Prior year	(4,507)	–	–	(2,229)	–	–
Profit on disposal	–	–	(23,874)	–	–	–
Excess non-operating income due to the Consolidated Fund	–	–	1,504	–	–	3,913
Finance leases	(1,278)	–	–	1,044	–	–
Request for Resources 2						
Net book value	12	–	–	88	–	–
Request for Resources 3						
Net book value	46	–	–	34	–	–
Schedule 1	89,989	–	(58,374)	25,767	–	(1,010)
Request for Resources 1						
Fixed assets (creditors)/debtors	(12,915)	–	56,615	(3,994)	–	–
Excess non operating income due to the Consolidated Fund	–	–	(1,504)	–	–	(3,913)
Loss on disposal	–	–	–	–	–	729
Request for Resources 2						
National Loans Fund repayment – principal	–	(57,587)	–	–	(26,730)	–
Schedule 4	77,074	(57,587)	(3,262)	21,773	(26,730)	(4,194)

14 Tangible fixed assets

	Land & Buildings excluding Dwellings	Dwellings	Information Technology	Plant & Machinery	Furniture & Fittings	Assets under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation							
At 1 April 2003	1,564,236	15,218	37,066	21,841	39,209	16,185	1,693,755
Additions	8,236	–	57,867	2,283	6,617	20,771	95,774
Disposals	(31,258)	–	(1,341)	(3,196)	(1,235)	(3,427)	(40,457)
Revaluation	55,424	2,402	(4,810)	244	5	–	53,265
Reclassification	271	–	13,155	(41)	–	(13,385)	–
At 31 March 2004	1,596,909	17,620	101,937	21,131	44,596	20,144	1,802,337
Depreciation							
At 1 April 2003	58,718	506	15,306	15,942	15,876	–	106,348
Charged in year	35,113	223	11,941	1,773	2,563	–	51,613
Disposals	(719)	–	(989)	(2,228)	(518)	–	(4,454)
Revaluation	(82,880)	(692)	(227)	59	55	–	(83,685)
Reclassification	–	–	27	(27)	–	–	–
At 31 March 2004	10,232	37	26,058	15,519	17,976	–	69,822
Net Book Value:							
At 31 March 2004	1,586,677	17,583	75,879	5,612	26,620	20,144	1,732,515
At 1 April 2003	1,505,518	14,712	21,760	5,899	23,333	16,185	1,587,407

In 2003-04 the rolling programme of professional revaluation covered 40% by value of all property assets. The remaining property assets were valued on the basis of a professional desktop valuation, based on local geographical knowledge or appropriate indices. The last professional valuation of all the property assets was carried out by the Valuation Office Agency (VOA) in June 2000, following which the rolling programme of valuations was introduced.

The value of freehold land included in Land and Buildings excluding Dwellings is £297.723m (2002-03 £267.420m).

At the beginning of the financial year Stewart House and the management of Archway Tower as well as some furniture and fittings transferred over to the Department from the Public Guardianship Office (PGO) as part of the Department Change Programme. However Archway Tower, along with the related furniture and fittings, is recognised on the PGO's Balance Sheet as it is used in its operations.

There were three properties, including Stewart House, vacated and awaiting disposal at 31 March 2004. Such premises are held at open market value and are not depreciated.

Included within the net book value of Information Technology is £2.520m (2002-03 £0.019m) relating to assets leased under finance agreements. Included within the depreciation charge for the year is an amount of £0.970m (2002-03 £0.274m) relating to these leased assets.

Also included in Information Technology are two assets representing the capitalised value of payments made under the County Court Systems (CCS) and Libra PFI contracts, which under FRS 5 are deemed to be assets of the Department. Their net book values are, for CCS, £2.642m (2002-03 £3.959m) and, for Libra, £5.093m (2002-03 £10.187m). Included within the depreciation charge for the year is £1.401m (2002-03 £1.991m) relating to CCS and £5.093m (2002-03 £nil) in respect of Libra.

The majority of the IT equipment used by the Department is provided by private sector suppliers through contracts under the Private Finance Initiative. Further details on PFI contracts are disclosed in Note 26.

There have been downward revaluations of certain categories of Land and Buildings, Information Technology, Plant and Machinery and Furniture and Fittings to below depreciated historic cost. The total diminution in value of £6.999m (2002-03 £9.428m) has been charged to the Operating Cost Statement.

15 Investments

	National Loan Fund	Shares in nationalised industries	Total
	£000	£000	£000
Balance at 1 April 2003 (as restated)	1,045,528	1	1,045,529
Loan repayments	(57,587)	–	(57,587)
Balance at 31 March 2004	987,941	1	987,942

Shares in nationalised industries include:

Scottish Power plc and Scottish & Southern Energy plc

These shares carry no right to vote at general or separate meetings, but do entitle the holder to attend and speak at such meetings. The shares confer no rights to participate in the capital or profits of the companies, except that in a winding-up the special shareholder will be entitled to repayment in priority to the other shareholders. The written consent of the special shareholder is required in certain matters. These special shares are redeemable, at par, at any time by the special shareholder after consultation with the company.

Scottish Power plc and Scottish & Southern Energy plc, both publish an Annual Report and Annual Accounts, which contain further information on these shareholdings.

British Energy plc

The Secretary of State for Scotland holds one special right redeemable preference share of £1 in British Energy Generation (UK) Ltd. This share does not carry any rights to vote at general meetings, but entitles the holder to attend and speak at such meetings. It confers no rights to participate in the capital or profits of the company beyond its nominal value. The prior written consent of the special shareholder is required to any proposal to vary specific sections of the company's Articles of Association. This share is designed to ensure the continued existence of Scottish Nuclear with its own Board within British Energy.

The Secretary of State for Scotland, jointly with the Secretary of State for the Department of Trade and Industry, also holds one special right redeemable preference share of £1 in British Energy plc. The terms of this shareholding are the same as for British Energy (UK) Ltd above. In particular, the joint shareholders must consent to any proposal to change the place of company registration and the location of its headquarters. This share is accounted for by the first named shareholder, the Secretary of State for the Department of Trade and Industry.

Both of these shares are held without limit of time and cannot be redeemed before 30 September 2006. After that time, they may be redeemed, at par, at the option of the Secretary of State for Scotland, after consulting the company.

For further details see Note 1.5

16 Non cash and notional costs

The analysis of non-cash costs for Schedule 1 excludes those costs that fall directly to the Consolidated Fund.

16.1 Schedule 1

	2003-04	2002-03
	£000	As restated
	£000	£000
Notional pension costs	–	14,927
Notional charge for National Assembly of Wales services	361	416
Depreciation	51,613	43,260
Downward revaluation of assets below depreciated historic cost	6,999	9,428
Notional rent charge	1,354	–
PFI contracts deferred benefit	2,276	15,335
Increase in provisions (administration)	1,614	1,585
Increase in provisions (programme)	24,873	184
Movement in bad debt provision (administration)	17	41
Libra adjustment	–	2,396
Cost of capital	54,484	92,907
External auditors' remuneration and expenses	542	445
Profit on disposal of fixed assets	(23,874)	–
	120,259	180,924

16.2 Schedule 4

	2003-04	2002-03
	£000	As restated
	£000	£000
Schedule 1 (see Note 16.1 above)	120,259	180,924
Judicial salaries paid from the Consolidated Fund	113,992	134,259
Loss on disposal of fixed assets	–	729
	234,251	315,912

17 Movements in working capital other than cash

The analysis of working capital for Schedule 1 includes accruals adjustments related to expenditure and income chargeable to the Department's Estimates.

17.1 Schedule 1

	2003-04	2002-03 As restated
	£000	£000
Increase in debtors	68,814	30,383
Increase in creditors	(35,092)	(11,903)
Decrease in long term creditors	-	(44,288)
	(33,722)	(25,808)

17.2 Schedule 4

	2003-04	2002-03 As restated
	£000	£000
Increase in debtors	11,905	30,305
Increase in creditors	(22,177)	(7,913)
	(10,272)	22,392

17.3 Reconciliation to balance sheet

	2003-04	2002-03 As restated
	£000	£000
Increase in debtors	78,292	20,039
Adjusted for:		
amounts due from Consolidated Fund	(19,020)	-
PFI contracts deferred benefit	2,276	15,335
amounts due as CFERs to the Consolidated Fund	6,372	(6,634)
amounts due to other government departments	(3,376)	-
amounts due in respect of the National Loans Fund	3,959	1,154
increase in bad debts provision	17	411
fixed asset debtors	(56,615)	-
Increase in debtors for Schedule 4	11,905	30,305
Fixed asset debtor	56,615	-
Exclude movement on allowable CFERs receivable	-	47
Adjustment in respect of prior year	294	31
Increase in debtors for Schedule 1	68,814	30,383
Increase in creditors	(1,368,869)	(104,285)
Adjusted for:		
Consolidated Fund creditor	(58,847)	56,136
CFERs	46,736	4,236
amounts due to other government departments	16,313	9,467
excess appropriations in aid	1,461,036	-
amounts due to the National Loans Fund	(61,546)	15,138
third party balances	(71,280)	7,216
obligations under finance leases	675	185
fixed asset creditors	12,915	3,994
Machinery of Government creditor	690	-
Increase in creditors for Schedule 4	(22,177)	(7,913)
Prior year CFER adjustment	-	4
Fixed assets creditors	(12,915)	(3,994)
Increase in creditors for Schedule 1	(35,092)	(11,903)

18 Debtors

	2003-04	2002-03
	<u>£000</u>	<u>As restated £000</u>
Amounts falling due within one year:		
Trade debtors	2,827	3,423
VAT	12,133	11,271
Deposits and advances	1,637	1,722
Prepayments and accrued income	19,382	17,454
Prepayments – PFI contracts deferred benefit	9,393	10,539
Prefunding of early departure costs	159	213
Amounts due as CFERs to the Consolidated Fund	18,705	25,077
Amounts due from the Consolidated Fund in respect of Supply	19,020	–
Amounts due to other government departments	11,248	7,872
Amounts due to the National Loans Fund	18,364	22,323
Other debtors	<u>27,567</u>	<u>2,791</u>
	140,435	102,685
Amounts falling due after one year:		
Deposits and advances	136	172
Prepayments	2,454	28
Prepayments – PFI contracts deferred benefit	26,900	25,206
Prefunding of early departure costs	–	158
Other debtors	<u>36,616</u>	<u>–</u>
	206,541	128,249

Trade debtors are shown net of a provision for doubtful debts of £0.665m (2002-03 £0.676m). Other debtors are shown net of a provision for doubtful debts of £0.137m (2002-03 £0.123m).

The prepayments on the PFI contracts represent either the open market value of assets transferred to the PFI supplier or the amount by which upfront payments exceed the cost of fixed assets purchased. The prepayments will be released evenly over the lives of the contracts and therefore, primarily, fall due after one year.

Included in Other Debtors is £20.000m due within one year and £36.616m due after one year which relates to the sale of property.

The advances due after one year relate to relocation loans made to staff.

19 Cash at bank and in hand

	2003-04	2002-03
	<u>£000</u>	<u>As restated £000</u>
Balance at 1 April	177,125	102,085
Increase in cash	<u>1,378,917</u>	<u>75,040</u>
Balance at 31 March	<u>1,556,042</u>	<u>177,125</u>
The following balances at 31 March are held at:		
Office of HM Paymaster General	1,554,967	173,240
Commercial banks and cash in hand	<u>1,075</u>	<u>3,885</u>
	<u>1,556,042</u>	<u>177,125</u>
The balance at 31 March comprises:		
Third party monies	5,213	76,493
Amounts (due) issued from the Consolidated Fund in respect of Supply	(19,020)	58,847
Excess appropriations in aid	1,465,242	3,913
CFERs received in current year and not yet paid over	79,836	26,684
CFERs received in prior years and not yet paid over	–	44
Amounts due to other government departments	24,081	11,144
Machinery of Government creditor	<u>690</u>	<u>–</u>
	<u>1,556,042</u>	<u>177,125</u>

The balances of cash at bank and in hand include £4.271m held by the Court Service and £0.942m held by the Office of the Official Solicitor and Public Trustee (OSPT), on behalf of third parties. This amount is also disclosed as a creditor.

In respect of CFER balances, see Note 1.22.

20 Creditors

20.1 Amounts falling due within one year

	<u>2003-04</u>	<u>2002-03</u>
	£000	As restated £000
Other taxation and social security	1,834	1,873
Trade and other creditors	37,173	32,165
Creditor for capital value of PFI contract	–	2,889
Obligations under finance leases	268	13
Accruals and deferred income	83,313	50,301
Balances payable to the Consolidated Fund:		
Consolidated Fund Extra Receipts received and receivable	98,541	51,805
Amounts issued from the Consolidated Fund for Supply but not spent	–	58,847
Excess appropriations in aid	1,465,242	4,206
Amounts due to other government departments	35,329	19,016
Amounts due to the National Loans Fund	38,788	54,110
Machinery of Government changes	690	–
	<u>1,761,178</u>	<u>275,225</u>
Third party monies	5,213	76,493
	<u>1,766,391</u>	<u>351,718</u>

20.2 Amounts falling due after one year

	<u>2003-04</u>	<u>2002-03</u>
	£000	£000
Amounts payable to the National Loans Fund	967,518	1,013,742
Obligations under finance leases (all within 1-2 years)	427	7
	<u>967,945</u>	<u>1,013,749</u>

Third party balances represent monies owed by defendants that have been paid into the civil courts who then pass them on to the claimants.

21 Provisions for liabilities and charges (see also Notes 1.7 and 1.8)

	Early departure provision	By analogy pension provision	Other	Total
	£000	£000	£000	£000
Balance at 1 April 2003 (as restated)	2,268	3,860	2,419	8,547
Provided in the year	1,016	198	25,170	26,384
Unwinding of discount	103	-	-	103
Utilised in the year	(869)	(273)	(321)	(1,463)
Balance at 31 March 2004	2,518	3,785	27,268	33,571

The £26.487m provided in year can be further analysed as follows:

	£000	£000
Administration costs (see Note 5)		
Early departure commitments	1,016	
Unwinding of discount	103	
Other	495	
		1,614
Programme costs (see Note 6)		
By analogy pension commitments	198	
Other	24,675	
		24,873
		26,487

Other Provisions primarily relate to instances where judges may determine that the Department should cover court costs.

During the year responsibility for the administration of legal aid passed to the Legal Services Commission. This included a provision of £505.883m, against future liabilities for legal aid in the Higher Criminal Courts.

As a result of comparatives being restated to reflect this transfer, the provision, which appeared in the 2002-03 resource accounts, has been removed.

22 Reconciliation of net operating cost to changes in general fund

	Note	2003-04		2002-03
		£000	£000	As restated £000
Net operating cost for the year (Schedule 2)		(29,994,879)		(30,082,110)
Income not appropriated in aid paid to the Consolidated Fund	8.2	(1,572)		(3,884)
			(29,996,451)	(30,085,994)
Net Parliamentary funding:				
Drawn Down			3,489,088	29,967,634
Deemed			53,740	–
Machinery of Government financing			27,731,493	(87,552)
Transfer to function			–	428,536
Payable to the Consolidated Fund:				
Consolidated Fund debtor/(creditor) in respect of Supply			19,020	(58,878)
Excess appropriations in aid			(1,465,242)	(3,913)
Transfer realised element of revaluation reserve	23		24,116	15,259
Notional costs:				
Judicial salaries paid from the Consolidated Fund	4.4	113,992		134,259
Notional superannuation for Judiciary		–		14,927
Cost of capital charge	5	54,484		92,907
Notional charge for National Assembly for Wales services	5	361		416
Auditors' remuneration	5	542		445
Notional rent	5	1,354		–
			170,733	242,954
Fixed Asset adjustments in respect of prior periods			4,507	2,229
Net increase in general fund			31,004	420,275
General fund at 1 April			964,656	544,381
General fund at 31 March (Schedule 3)			995,660	964,656

23 Revaluation reserve

	<u>£000</u>
Balance at 1 April 2003 (as restated)	599,640
Arising on revaluation during the year	143,949
Transferred to general fund in respect of realised element of revaluation reserve	<u>(24,116)</u>
Balance at 31 March 2004	<u>719,473</u>

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

24 Capital commitments

Contracted capital commitments at 31 March 2004, for which no provision has been made, amounted to £72.780m (2002-2003 £6.126m). Of this total, £39.600m relates to the construction of the Manchester Civil Justice Centre and £19.800m relates to the continuing development of the LINK Infrastructure System.

25 Commitments under leases

25.1 Operating leases

At 31 March 2004 the Department was committed to making payments during the following year in respect of operating leases expiring within the following periods:

	2003-04		2002-03	
	Land and buildings	Other	Land and buildings	Other
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Expiry within one year	2,259	151	532	169
Expiry after one year but not more than five years	9,258	243	12,108	795
Expiry thereafter	<u>35,182</u>	<u>36</u>	<u>28,002</u>	<u>42</u>
	<u>46,699</u>	<u>430</u>	<u>40,642</u>	<u>1,006</u>

25.2 Finance leases

The Department's obligations under finance leases are as follows:

	<u>2003-04</u>	<u>2002-03</u>
	<u>£000</u>	<u>£000</u>
Rentals due within one year	313	17
Rentals due after one year but within five years	<u>427</u>	<u>7</u>
	740	24
Less: interest element	<u>45</u>	<u>4</u>
	<u>695</u>	<u>20</u>

26 Commitments under PFI contracts

The minimum commitments payable under non-cancellable PFI contracts during 2004-05, analysed by the period during which the commitment expires, are:

	2003-04							Total
	CCS	ARAMIS	Probate records	Libra	Exeter Combined Court	East Anglia Court	Sheffield Family Court	
	£000	£000	£000	£000	£000	£000	£000	
within 1 year	29,000	29,360	1,500	28,225	800	4,030	890	93,805
2 to 5 years	41,000	61,417	6,500	54,404	9,600	16,500	3,800	193,221
6 to 10 years	-	-	9,300	-	12,100	21,400	5,300	48,100
11 to 15 years	-	-	10,600	-	12,100	22,200	6,000	50,900
16 to 20 years	-	-	12,000	-	12,100	23,500	6,800	54,400
21 to 25 years	-	-	6,000	-	12,100	24,700	7,700	50,500
26 to 30 years	-	-	-	-	12,100	-	-	12,100
	70,000	90,777	45,900	82,629	70,900	112,330	30,490	503,026

	2002-03							Total
	CCS	ARAMIS	Probate records	Libra	Exeter Combined Court	East Anglia Court	Sheffield Family Court	
	£000	£000	£000	£000	£000	£000	£000	
within 1 year	21,000	23,370	1,590	35,000	-	-	-	80,960
2 to 5 years	31,000	84,600	8,920	89,400	13,100	21,500	4,850	253,370
6 to 10 years	-	-	10,840	-	17,000	24,000	5,330	57,170
11 to 15 years	-	-	13,230	-	19,500	26,500	5,800	65,030
16 to 20 years	-	-	16,120	-	22,000	29,000	6,300	73,420
21 to 25 years	-	-	5,330	-	24,500	31,500	6,800	68,130
	52,000	107,970	56,030	124,400	96,100	132,500	29,080	598,080

These amounts are exclusive of recoverable VAT.

The PFI commitments relate to contracts for the provision of financial and other services. The amounts shown assume payments due in 2003-04 are unchanged in future years. Future annual payments may in fact vary by unknown amounts in accordance with a formula based on operating requirements.

The Department has entered into seven PFI arrangements:

ARAMIS PFI Project with Liberata UK Limited is for the provision of accounting, management information and corporate IT services to the Court Service and Department Headquarters. The nine-year contract was signed in December 1997 and commenced on 6 January 1998. The majority of assets underlying the services provided are deemed to be off-balance sheet under FRS 5. The capital value of the contract is currently estimated to be £39.520m out of a total expected contract value of £206.947m. At the start of the contract certain IT assets owned by the Department transferred to Liberata. This created an initial prepayment of £0.413m, which the Department amortises over the life of the project. The outstanding balance is disclosed in the debtor's note.

Probate Records scheme with Hays Commercial Services Limited is to provide storage and retrieval services. This contract was signed on 27 July 1999 for a period of 25 years. The assets underlying the services provided are deemed to be off-balance sheet under FRS 5. The capital value of the contract is estimated to be £10.9m out of a total expected contract value of £56m. The contract has been operational since January 2002.

CCS (formerly LOCCS) PFI Project with Electronic Data Systems Limited (EDS) is to supply IT services. The contract was signed on 30 September 1996 and covers the provision of computer systems, software development, support and maintenance for operational systems to the Court Service. The contract has been extended for a further three years to run for a total of 10 years. The majority of assets used in the provision of this contract are deemed to be on-balance sheet under FRS5. Some assets have also been provided under finance lease arrangements within the contract. The capital value of the contract is currently estimated to be £20m out of a total contract value of £248m. The costs have increased due to:

- rollout of infrastructure to the civil courts and volume charges for changes to the criminal infrastructure rollout,
- scoping work on an Oracle upgrade to support re-compete and modernisation projects, including piloting the Xhibit system, and
- changes to current systems including Juror, the Civil Justice Reforms project and support to tribunals.

Disclosures regarding the assets and related liabilities are made in the appropriate notes.

The Libra project with Fujitsu Services is for the provision of IT services to the magistrates' courts. This contract came into effect in December 1998 and was set to run for 12 years. The ongoing service charges, expected to total £275.000m over the 12 years, were to be the responsibility of the Magistrates' Courts Committees. These would be funded by a grant from the Department and were therefore not disclosed as a departmental commitment. A variation to the contract was signed in July 2002. Under this new arrangement, Fujitsu Services will deliver the IT infrastructure and provide support until March 2007 but the Department will meet most of the costs directly. This is a significant reduction in the length of the contract. The figures included above are based on the new contract which has an estimated capital value of £25.467m out of a total contract value of £256.500m.

Exeter – this project will provide a new courthouse comprising four criminal courts, one civil court and four district judges hearing rooms. Accommodation for the Probate Registry and for the Group Manager will also be included. The contract, with Enterprise Civic Buildings Limited, was signed in November 2002 and will run for 30 years from completion of the building. The net present value of the project is estimated at £23.700m, while the capital value is estimated at £16.000m. The building is expected to be made available to the Department in November 2004 and has been assessed as being on-balance sheet under FRS 5. At the end of the PFI term the building will revert to the Department at no cost.

East Anglia – this project will provide new court accommodation in the region. Specifically, the project includes the provision of new Crown Court centres in Ipswich and Cambridge. The new accommodation is required to replace poor existing accommodation. Ipswich Crown Court is to consist of five criminal courtrooms, Cambridge Crown Court to consist of three criminal courtrooms. The contract, with Modern Courts East Anglia Limited, was signed on 31 October 2002 and has a term of 25 years from completion of the buildings. The project has a net present value of £40.000m and a capital value of £26.000m. Practical completion of the scheme took place at the beginning of May 2004, and the building was occupied in early June. The scheme has been assessed as on-balance sheet under FRS 5. At the end of the PFI term the buildings in Ipswich and Cambridge will revert to the Department at no cost.

Sheffield – this project will provide a new Family Hearing Centre in the city. The new hearing centre is required to enable the court to deal with increasing workload levels and provide more appropriate facilities for family hearings. The new hearing centre will consist of two family courtrooms, two hearing rooms and a training room which is capable of being converted into one large, or two small, hearing rooms. The contract, with Palecastle Limited, was signed on 21 November 2002 and has a term of 25 years from completion of the building. Completion has taken place and the building was occupied in mid-June. The scheme has a net present value of £9.000m and a capital value of £5.000m. The scheme is being assessed to determine whether, or not, it is on-balance sheet under FRS 5. At the end of the PFI term the Department has the option of acquiring the underlease at the lower of its open market value or £2.000m.

27 Other financial commitments

Following the variation of the Libra contract with Fujitsu Services, the Department entered into two contracts with the Technologies Group Ltd (STL) for the production of the software and with Accenture UK Ltd to act as systems integrator.

STL

The contract with STL was signed in January 2003 and will run for five years, ending in January 2008. As well as a modernised version of the current software, STL will produce migration software to transfer data to the new system and provide training and support.

A variation to the contract was signed in October 2003. The effect of this variation was to move the development from a Microsoft to a Java / Oracle environment and to move from a three phase delivery to six phases. The total contract value is £35.800m.

Accenture Ltd

Signed on 23 October 2003 the contract with Accenture is primarily for hosting (installing and supporting) the Libra case management application software (being developed by STL), hosting the MIS application software (being developed by Accenture) and implementing a means of data exchange with other criminal justice organisations and the banks of the Magistrates' Courts' Committees (MCCs).

Accenture are also responsible, during the first two years of the contract, for migrating MCCs off their old legacy case management systems to Libra and training the MCCs staff in the use of these applications.

The contract will run for five years and the Department has the option to extend it by three. The current contract value is £41.600m.

Libra refresh

Libra Strategic Implementation System payments made under the contract with Fujitsu Services are treated as prepayments in so far as they exceed amounts needed to settle outstanding liabilities. A refresh of the technology will commence in 2004-05 at a cost of £12.083m. There will be no extra payments made by the Department to cover this cost. Instead an equivalent amount will be released from prepayments for capitalisation.

28 Contingent liabilities

Contingent liabilities required to be disclosed under FRS 12

The Department has several small works of art on loan other than from the Government Art Collection.

The Department is involved in a number of cases that have been brought before the European Court of Human Rights. Offers to encourage early settlement have already been made where it was thought sensible to do so by the Department. The final outcome of these cases cannot be reliably predicted at this time. The total cost to the Department is not expected to exceed £1.000m.

The Department is involved in seven cases before the Employment Tribunal. They involve fee paid judicial office holders claiming retrospective pension rights. It is not possible to calculate the potential loss to the Department of a negative judgement, as a precedent would be set for up to 5000 other office holders with potential claims dating back 20 years.

In two separate employment tribunal cases, the Department is being sued in respect of discrimination by judicial post holders. The aim is to settle both cases for a total of no more than £0.250m excluding costs.

The Department has a current obligation in a Trust case that concerns its tax treatment over the past 30 years. The Inland Revenue may find that the Department is responsible for 20 years of tax and interest, along with any penalties. This could give an estimated total cost of £0.300m.

A personal injury claim is expected as a result of a serious incident. The exact size of the claim and the outcome are not yet known.

The Public Guardianship Office has undertaken a Quality Review project, which may result in the agency incurring financial losses due to historical poor management practices. Where a reliable estimate could be made of the potential loss, a provision has been made. However, although the agency does not anticipate any further losses, the risk remains that further liabilities may be identified before the project is completed.

The Department has a legal obligation under the Administration of Justice Act 1982 to make good any default that the Accountant General or manager of the Common Investment Scheme may be guilty of, with respect to any money, securities and effects for which they are responsible. There is no known liability at present.

Contingent liabilities not required to be disclosed under FRS 12 but included for parliamentary reporting and accountability

The Legal Services Commission, sponsored by the Department, is an executive non-departmental public body, responsible for publicly funded legal cases. At any one time there will be several million live cases, and therefore a value for outstanding liabilities is arrived at through an estimation process. The Commission has included an estimated liability in its 2003-04 published Annual Report and accounts amounting to £2.825bn (2002-03 £2.979bn).

The Commission has also reported in its 2003-04 accounts a shortfall in funding of £17.976m (2002-03 £23.995m) in its pension schemes.

29 Related parties

Associated departments and other central Government bodies

The Department for Constitutional Affairs is the parent of the Court Service and the PGO and sponsor of the Legal Services Commission and the Information Commissioner's Office. The Department is also accountable to Parliament for the operation of the magistrates' courts. All of these bodies are regarded as related parties with which the Department has had various material transactions during the year.

As part of Machinery of Government changes, the Scotland Office works closely with the Scottish Executive from whom most of the staff is loaned. Advice and assistance were provided by the Executive for some specialised areas where they have greater expertise, such as IT, accommodation and finance. Not all of these services were covered by Service Level Agreements during the year.

The Wales Office funds the National Assembly for Wales. The National Assembly for Wales is thus regarded as a related party with which the Wales Office has had various material transactions during the year.

In addition the Department for Constitutional Affairs has had a small number of transactions with other Government departments and other central Government bodies.

Private companies

Registry Trust Limited is a private company limited by guarantee with no share capital. It maintains, on behalf of the Secretary of State and Lord Chancellor, the Register of County Court Judgements. In view of its role and its relationship with the Secretary of State and Lord Chancellor, Registry Trust Limited is regarded as a related party. Income received from Registry Trust Limited in the year to 31 March 2004 amounted to £0.123m (2002-03 £0.177m).

Graduated Fees Scheme

It is the Lord Chancellor's role to authorise the rates of payment under the Graduated Fees Scheme. These rates are implemented by the Legal Services Commission, when calculating remuneration of Family Barristers involved in legally aided proceedings. The Lord Chancellor's spouse, Marianna Hildyard QC, is a Family barrister in receipt of such payments.

Changes to this scheme during the 2003-04 financial year are outlined in Statutory Instrument 2003 No. 2590, available at: www.legislation.hmso.gov.uk.

Salary paid in respect of Recorder fees

It is also the Lord Chancellor's role to authorise changes to the annual salaries of the Judiciary, including Recorders. The Lord Chancellor's spouse, Marianna Hildyard QC, is a Recorder in receipt of such payments. Fees paid directly to her by the Department in respect of performance of duties amounted to £13,225.

30 Post Balance Sheet events

The following changes have occurred since the end of the financial year, which are non-adjusting events but which have an impact on future activities.

Sale of shares

The Secretary of State for Scotland held the following 'special' or 'golden' shares:

Scottish Power plc	1 special right non-voting redeemable preference share of £1
Scottish & Southern Energy plc	1 special right non-voting redeemable preference share of £1
British Energy (GB) Ltd	1 special right redeemable preference share of £1

Special shares in these companies were put in place at the time of privatisation and gave the Government a variety of different rights in each company. A review of the UK Government's special shares in energy companies was carried out following a European Court of Justice judgement on 13 May 2003. This judgement stated that the special share held by the UK Government in British Airports Authority was contrary to the principles of free movement of capital as defined in Article 56 of the EC Treaty.

The Government announced that it would redeem the special shares it held in five energy companies and that it would retain its special shares in British Energy but with modified powers. The shares in Scottish Power and Scottish and Southern Energy were redeemed on 5 May 2004.

31 Resources by departmental aim and objectives

Apportionment of overheads is by way of staff numbers and space utilised. Allocation by objective takes established management reports, considered management assumptions and then maps these to a full cost model. Smaller cost centres are apportioned through management review and reviews by central Finance Divisions.

The bulk of the Department's net assets are employed by the Court Service in pursuit of objectives one, four and five. The capital charge in respect of these assets has therefore been apportioned across these objectives.

Programme grants and other current expenditure, as reported in Note 6, have been allocated as follows:

	2003-04	2002-03
	<u>£000</u>	<u>As restated</u>
	<u>£000</u>	<u>£000</u>
RfR 1		
Objective 1	1,768,987	1,609,305
Objective 2	328,658	299,691
Objective 3	462,579	429,938
Objective 4	(8,367)	(7,442)
Objective 5	(23)	(60)
Objective 6	4,511	5,710
Residual expenditure – HM Land Registry	<u>14,590</u>	<u>2,539</u>
	<u>2,570,935</u>	<u>2,339,681</u>
RfR 2	17,058,295	17,985,932
RfR 3	<u>9,606,176</u>	<u>8,998,940</u>
Net Programme Costs	<u>29,235,406</u>	<u>29,324,553</u>

Residual expenditure comprises amounts paid, under Cabinet Office and HM Treasury direction, to fund the Invest to Save and Capital Modernisation Fund programmes for HM Land Registry. Further details on these programmes is available at: www.hm-treasury.gov.uk.

32 Resources by departmental aims and objectives

32.1 Departmental revised objectives

The Department revised its objectives in 2003. The table below shows both the current and prior year costs against the former objectives.

Aim

The aim of the Core Department is justice.

	<u>Gross</u> £000	<u>2003-04</u> <u>Income</u> £000	<u>Net</u> £000	<u>Gross</u> £000	<u>2002-03</u> <u>Income</u> £000	<u>Net</u> £000
RfR 1						
Objectives:						
1. To provide a fair, swift and effective system of justice which promotes confidence in the rule of law; helps reduce crime, the fear of crime, and the economic consequences of crime; and gives value for money,	2,500,828	(379,234)	2,121,594	2,315,869	(345,268)	1,970,601
2. To improve people's knowledge and understanding of their rights and responsibilities including how to resolve disputes which affect them, in a way and at a cost proportionate to the issues at stake,	140,831	(877)	139,954	129,533	(392)	129,141
3. To improve the availability of affordable and good quality legal services so that the law underpins economic success, at home and abroad and that the use of public funds secures greater social justice and reduces social exclusion,	593,305	(17,366)	575,939	542,417	(16,177)	526,240
4. To make civil and family law clearer and more easily enforceable giving priority to key Government objectives in tackling social and economic issues,	78,998	(1,431)	77,567	73,463	(134)	73,329
5. To improve the lives of children and help build and sustain strong families through providing a legal and procedural framework to sustain family relationships and, when they do break down, to resolve disputes with the least distress to those affected, especially the most vulnerable,	415,669	(40,301)	375,368	384,827	(38,093)	346,734
6. To uphold the independence of the judiciary especially through the appointment of sufficient judges, magistrates and other judicial post holders of the right calibre to match needs, and through promoting a partnership with the judiciary for delivering justice effectively.	10,815	(1,958)	8,857	30,041	(329)	29,712
RfR 2	17,065,471	(893)	17,064,578	17,993,649	(915)	17,992,734
RfR 3	9,609,784	(46)	9,609,738	9,002,474	(9)	9,002,465
Following the general election in June 2001, the Prime Minister announced a number of major changes to the Machinery of Government. As a result the Department took on areas of work that cannot be assigned to its current objectives. The objectives have been reviewed as part of the SR2002 process, and revised objectives came into effect from April 2003. In the meantime costs associated with these new duties are reported separately.	16,497	(9,803)	6,694	17,041	(8,426)	8,615
Residual expenditure – HM Land Registry.	14,590	–	14,590	2,539	–	2,539
Net Operating Costs	30,446,788	(451,909)	29,994,879	30,491,853	(409,743)	30,082,110

32.2 Analysis of RfR 2

Analysis of RfR 2 by Scotland Office objectives, required for Schedule 5.

	Gross £000	2003-04 Income £000	Net £000	Gross £000	2002-03 Income £000	Net £000
Objectives						
1. Improving public understanding of and confidence in devolution through preparing Ministerial speeches, articles and correspondence,	1,391	–	1,391	1,577	–	1,577
2. Implementing the devolution settlement, paying grant to the Scottish Consolidated Fund within the limits voted by Parliament, making any necessary Statutory Instruments under the Scotland Act 1998 and considering any report that may be received from the Boundary Commission for Scotland,	17,059,499	–	17,059,499	17,986,950	–	17,986,950
3. Advising UK departments about distinctive Scottish interests in relation to reserved matters,	1,810	(118)	1,692	2,054	(129)	1,925
4. Providing legal advice and services to UK Government departments,	2,625	(775)	1,850	2,632	(786)	1,846
5. Supporting Scottish interests overseas through the establishment of a network of Friends of Scotland.	146	–	146	436	–	436
Total RfR 2	17,065,471	(893)	17,064,578	17,993,649	(915)	17,992,734

Analysis of RfR 2 by Scotland Office objectives, required for Note 31, programme costs by aim and objectives.

Programme grants of £17,058.050m (2002-03 £17,985.679m) were made to the Scottish Consolidated Fund and £0.245m (2002-03 £0.253m) made to the Boundary Commission. These costs are attributable to the Scotland Office objective 2. The remainder of resources is employed for administrative purposes, so distribution amongst objectives is in the Note to Schedule 5.

32.3 Analysis of RfR 3

It has not been possible to provide the RfR 3 details by objective. In prior years the Wales Office Resource accounts have, with the approval of HM Treasury, reported resources by aims. Steps have been taken to provide details by objective for future years.

33 Financial instruments

FRS 13, *Derivatives and Other Financial Instruments: Disclosures*, requires disclosure of the role which financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which Government departments are financed, the Department is not exposed to the degree of financial risk faced by business entities.

Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Department has no powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Department in undertaking its activities.

As permitted by FRS 13, debtors and creditors that mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity risk

The Department's net resource requirements are financed by resources voted annually by Parliament, just as its capital expenditure largely is. It is not, therefore, exposed to significant liquidity risks.

Interest rate risk

Most of the Department's cash balances carry nil or fixed rates of interest. It is not, therefore, exposed to significant interest rate risk. Balances with the National Loans Fund attract a variable rate of interest. This interest is paid over directly to the Consolidated Fund.

Foreign currency risk

Foreign currency income and expenditure are negligible.

34 Third party assets

The Department holds third party assets through its two agencies, the Court Service and the Public Guardianship Office (PGO), and also through an associated office, the Official Solicitor and Public Trustee (OSPT). Its current systems do not support full disclosure of third party assets but the Department is taking the necessary steps to address this.

Court Service

	<u>31 March 2003</u>	<u>Gross inflows</u>	<u>Gross outflows</u>	<u>31 March 2004</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Third Party Monies	75,553	58,313	(129,595)	4,271

Court Funds Office

The Court Funds Office manages money held in court on behalf of clients who may: be involved in a civil legal action; be patients who, under the Court of Protection, are not able to manage their property and affairs; be children under the age of 18. These are non-departmental assets and are not included in the accounts. The assets held at the balance sheet date, to which it was practical to ascribe monetary values, comprised cash, securities and unit holdings in the Common Investment Scheme. These items, with their value as at 29 February 2004 are listed below:

- Cash – held and invested on behalf of the Accountant General of the Supreme Court through the Commissioners for the Reduction of the National Debt – £3,940m (2002-03 £3,670m).
- Common Investment Scheme – administered on behalf of the Secretary of State and Lord Chancellor by an appointed Investment Manager. The Accountant General holds unit shares in the Index Tracker Fund on behalf of the beneficiaries. The Index Tracker Fund is a balanced portfolio managed by the Investment Manager in accordance with the investment strategy in force at the time – £30.400m (2002-03 £27.400m).

Public Guardianship Office (PGO)

The PGO handles the financial affairs and hence, assets, of those unable to do so through mental incapacity. The agency is required under its Framework Document to prepare Stewardship Accounts in respect of these assets. 'Dry run' Stewardship Accounts are being prepared for the year ended 31 March 2004.

Official Solicitor and Public Trustee

The Official Solicitor (Estates)

The Official Solicitor (OS) administers estates and trusts as Administrator/Trustee of Last Resort. He might be called upon to manage an estate for someone entitled to a Grant of Administration, but who is incapable of applying because of mental illness. He may also act as the administrator of the estate of a deceased person, to facilitate a claim being brought under the Inheritance Act. The OS might act as Judicial Trustee in disputes involving the trustees and/or beneficiaries about the administration of an estate. The OS also manages a number of trust funds for children.

	31 March 2004	31 March 2003
	£000	£000
Cash and deposits		
Cash	18,081	15,372
Investments	12,440	–
Non Cash Assets		
Freehold Property	10,156	–
Leasehold Property	230	–
Chattels	6	–

The OS was unable to provide comparative details for non-cash assets.

The Public Trustee (Trust)

The Public Trustee (PT) acts as Executor or Trustee where he has been appointed under a will or new settlement. The PT may also be asked to administer the estate of an individual who has died intestate. He may be asked to take over existing trust or settlement, by the existing trustees or by order of court. The PT also administers certain pension, friendly society and other institutional funds.

	31 March 2004	31 March 2003
	£000	£000
Cash and Deposits		
Cash	22,784	23,304
Investments	225,720	205,000
Non Cash Assets		
Freehold Property	21,070	27,688
Leasehold Property	776	926
Chattels	1,461	1,212

35 Accountability notes

Losses statement

There were 217,590 (2002-03 322,345) cases involving losses totalling £37.171m (2002-03 £48.402m).

This statement includes two amounts, £0.242m and £0.499m, which have been written off as irrecoverable.

It also includes an amount of £3.782m written off following a review of one of the Department's agencies changing business (IT) requirements.

Special payments

There were 1,162 (2002-03 1,403) special payments totalling £1.002m (2002-03 £1.145m).

Included in the above is an amount of £0.145m in respect of interest charged on a magistrate's court's revenue grant payment for 1997-98.

Fees remitted

There were 31,200 (2002-03 26,866) cases where fees were remitted. The total value was £2.408m (2002-03 £2.754m).

36 Actual outturn – resources and cash

Actual outturn – outturn

Request for Resources 1: actual amount net resource outturn £3,311,866,057.04. Actual amount of savings in resource over Estimate £49,644,942.96.

Request for Resources 2: actual amount net resource outturn £1,000.00. Actual amount of savings in resource over Estimate £778,573,000.00.

Request for Resources 3: actual amount net resource outturn £303,134,383.15. Actual amount of savings in resource over Estimate £85,123,616.85.

Actual outturn – cash

Net cash requirement: outturn net requirement £3,561,848,904.64 which is £930,228,095.36 less than Estimate.

The actual receipts to be surrendered to the Consolidated Fund were £1,688,021,182.95.