

# Statement of accounts

For the year ended  
31 March 2011



SG/2011/81. Laid before the Scottish Parliament by the Scottish Ministers in pursuance of section 5(7)(a) of the Legal Aid (Scotland) Act 1986 and section 22(5) of the Public Finance and Accountability (Scotland) Act 2000, September 2011.

	Pages
Foreword .....	3
Management commentary .....	5
Remuneration report .....	20
Statement of the Board's and Chief Executive's responsibilities .....	23
Statement on the system of internal control .....	24
Independent auditor's report .....	27
<b>Financial statements:</b>	
<b>Scottish Legal Aid Fund</b>	
Statement of comprehensive net expenditure .....	29
Statement of financial position .....	30
Statement of cash flows .....	31
Statement of changes in taxpayers equity .....	32
Notes to the accounts for the Scottish Legal Aid Fund .....	33
<b>Scottish Legal Aid Board</b>	
Statement of comprehensive net expenditure .....	46
Statement of financial position .....	47
Statement of cash flows .....	48
Statement of changes in taxpayers equity .....	49
Notes to the accounts for the Scottish Legal Aid Board .....	50
<b>Appendix 1: Direction given by Scottish Ministers</b> .....	59

The financial statements were issued on 27 July 2011.

## Background

The Board presents its accounts for the financial year ended 31 March 2011.

The Board is a Non-Departmental Public Body set up in 1987 under the Legal Aid (Scotland) Act 1986, and is accountable to Scottish Ministers. A key objective for the Board is to operate within its administration budget and to manage the Legal Aid Fund. Separate accounts have been prepared for the Scottish Legal Aid Fund and for the administrative income and expenditure of the Scottish Legal Aid Board.

The accounts have been prepared in a form directed by Scottish Ministers in accordance with section 5 (2) of the Legal Aid (Scotland) Act 1986, as amended by the Public Finance and Accountability (Scotland) Act 2000, and the Government Financial Reporting Manual 2010-2011.

## Principal activities

The principal activities of the Scottish Legal Aid Board (“the Board”) are:

- advising Scottish Ministers on how legal aid is working, and ways to develop it
- managing the Legal Aid Fund
- deciding whether to grant applications for legal aid
- determining if people have to pay towards the cost of legal assistance, then collecting these amounts
- assessing solicitors’ and advocates’ accounts for legal aid work, and paying them for the work they have done
- registering firms and solicitors who do legal assistance work and making sure these firms and solicitors maintain high standards, including funding civil quality assurance which is run by the Law Society of Scotland and criminal quality assurance operated by the Board
- investigating and tackling fraud and abuse of legal aid
- developing a network of Public Defence Solicitors’ Offices (PDSO) through Board employed solicitors who offer criminal legal advice and representation, and also, under Part V of our legislation, developing a network of Civil Legal Assistance Offices (CLAO) to offer advice services on civil matters using Board employed solicitors to the extent agreed by Scottish Ministers
- providing grant funding for targeted legal advice and other services
- exploring new ways of delivering legal aid services.

## Board members

The table below shows the appointments of the serving Board members for the year to 31 March 2011:

Name	Start date	Period of appointment to
Les Campbell	1 September 2006	31 March 2016*
Joseph Hughes	1 September 2006	31 March 2012*
Denise Loney	1 January 2007	31 March 2016*
Alastair Kinroy QC	1 April 2010	31 March 2014
Ray MacFarlane	1 April 2010	31 March 2014
Paul McBride QC	1 April 2006	31 March 2014
Susan McPhee	1 January 2005	31 March 2012
Bill McQueen CBE	1 April 2010	31 March 2014
Iain A Robertson CBE (Chairman)	1 April 2006	31 March 2014
Elaine Rosie	1 January 2005	31 March 2012
Sheriff Ray Small	1 April 2010	31 March 2014
Graham Watson	1 April 2006	31 March 2014

\* These members’ first period of appointment expired on 31 March 2011

**Register of Board members' interests**

The Board keeps a register of Board members' interests, which is on its website at [www.slab.org.uk](http://www.slab.org.uk), or available in a paper copy from the Board's communications department (tel. 0131 226 7061).

**Membership of the Executive Team**

Throughout 2010-2011 the Executive Team has comprised:

Lindsay Montgomery CBE	Chief Executive and Accountable Officer
Ian Middleton	Director of Audit and Compliance
Andrew Menzies	Director of Corporate Services and Accounts
Tom Murray	Director of Legal Services and Applications
Colin Lancaster	Director of Policy and Development

## The purpose of legal aid in Scotland is to provide access to justice for those people who are unable to pay for it on their own.

Legal aid makes a difference to people's lives: it can mean the difference between people ensuring future financial security when their family breaks down, or slipping into poverty; keeping their job or being unfairly dismissed; making them and their family safe or continuing to live with domestic abuse. In doing so it can help improve people's lives and contribute to the creation of a more successful country. Legal aid also helps the criminal justice system work fairly, efficiently and effectively by providing publicly funded legal services to those accused of crimes. By providing people with access to assistance and representation at difficult times in their lives, we contribute to the Scottish Government's Purpose and to a number of the Scottish Government's National Outcomes.

The Scottish Government decides legal aid policy and the Scottish Parliament makes and changes legislation. The Scottish Legal Aid Board ("the Board") manages the legal aid system in Scotland within the scope of our governing legislation. The budget for legal aid is different from many other public services: it is not cash limited. The Scottish Government provides the Board with the necessary funds to meet the cost of cases. The Board's administrative costs are met from the grant-in-aid provided by the Scottish Government. This expenditure is cash limited. We play an important role in administering the legal aid system in a way which enables people to gain access to justice and delivers value for money. The work we do results in direct savings of over £40m a year, through assessment of solicitors' and advocates' accounts, refusing applications which do not meet the statutory tests and other measures to get best value from legal aid, including minimising fraud and abuse.

### OUR STRATEGIC AIMS

To help us achieve our purpose, the Board has set three Strategic Aims.

- To provide access to a range of quality assured legal help in Scotland, when and where it is needed.
- To obtain best value for the taxpayer through the delivery of efficient legal assistance services in Scotland.
- To contribute to an efficient justice system in Scotland by providing an efficient and effective legal aid system.

Through the achievement of these aims, we contribute to the achievement of the Scottish Government's Purpose and National Outcomes. We believe the best way of contributing to the delivery of the Scottish Government's National Outcomes is for the Board to approach its work by:

- **Working in partnership** with the Scottish Government, the legal profession, the advice sector, local authorities, others in the justice system and representative bodies.
- **Consulting** with applicants, assisted persons, opponents, solicitors, advocates and others with an interest in legal aid and access to justice.
- **Communicating** directly with applicants, assisted persons and opponents through letters, meetings and consultations, as well as through their solicitors.
- **Sharing** with others our policies and practices to achieve greater openness, understanding and effectiveness.
- **Engaging** in others' consultations and development processes to play our full part in improving the justice system and the operation of legal aid within it.
- **Continuously** improving through investment in our people, processes and systems, and implementing changes to achieve efficiency and effectiveness of our operations.

## DELIVERY OF OBJECTIVES IN 2010-2011

Legal aid in Scotland is a vital public service. It helps people to defend or pursue their rights if they cannot afford to do so. It plays an important role in the justice system and contributes to the efficient operation of the courts and police stations. In 2010-2011, there was significant progress and positive change in legal aid; the legal aid system is more efficient and delivers value for money while enabling access to justice for the most vulnerable people across Scotland.

These improvements took place during a challenging economic climate which has contributed to continued high demand for legal assistance. Many thousands of people had the benefit of legal aid and we dealt with around 750,000 new applications of various types and accounts from solicitors and counsel. We continue to see historically high numbers of civil legal aid applications. The main area of growth is in family actions involving contact with children. We have dealt with this continued high volume of applications whilst maintaining our performance against our targets and service standards. There has also been a growth in the number of solicitors and firms registered to provide criminal and civil legal assistance.

2010-2011 was the final year of a three year corporate planning cycle. The delivery of our key projects was set within the context of significant changes in the justice system, legal aid, society and the economy and a background of tight public expenditure and the economic downturn, both of which have affected the need for and delivery of the Board's services.

### Scottish Government Spending Review 2010

Activity in the second half of 2010-2011 was heavily focused on the need to find savings in legal aid expenditure. We assisted the Scottish Government in a substantial piece of work to develop and implement changes and regulations designed to reduce legal aid expenditure in 2011-2012 and subsequent years. In doing this we worked closely with the Law Society of Scotland. A key objective of this work was to enable savings to be made without damaging access to justice.

The Scottish Government's 2011-2012 budget allocation for the legal aid fund is £141.9 million, a reduction of £12.6m (8.2%) on the provision for the previous year. The budget allocation for the Board's running costs (covering such things as staff and accommodation) is £11.8 million, a reduction of £1.1m (8.5%).

For the Legal Aid Fund, the savings package introduced by the Scottish Government in 2010-2011 included the increased use of the PDSO on the court duty plans and changes introduced through a significant number of legal aid regulations passed by the Scottish Parliament between January and April 2011. These included:

- reductions in a range of solicitors' fees (for ABWOR, summary criminal legal aid and payments for travelling);
- introduction of a table of fees for counsel in Sheriff Court and Court of Session cases which will reduce the amount paid in cases;
- removal of certain exemptions from monies or capital that the Board is allowed to clawback from successful legally aided persons.

For the Legal Aid Fund, the savings package as a whole is forecast to deliver around £10m of savings in 2011-2012 and we will work closely with the Scottish Government to monitor the savings delivered. Further proposals for reducing expenditure are likely to be required for future years.

### Police Station Duty Scheme

Our work in 2010-2011 was also heavily impacted by the implications of the legal challenge in *Cadder v HMA*, regarding the provision of legal advice to suspects in police custody. Early in 2010-2011, we worked with the Crown Office, Scottish Government and the Law Society on the legal aid arrangements that supported the interim guidelines that were issued by the Lord Advocate in anticipation of the Supreme Court's decision on the case. This included development and implementation of new regulations which improved the payments to solicitors under the scheme. Subsequently we worked with the Scottish Government and other justice partners, including the Law Society of Scotland, to develop and implement the new duty placed on the Board to make solicitors available to provide advice to suspects detained by the Police.

### Delivery of the Corporate Plan 2010-2011

Our programme of work is a key contributor to the Scottish Government's objective of achieving a safer and stronger Scotland and delivering the related national outcomes. The Board's activities materially contribute to five of the Scottish Government's National Outcomes:

- **National Outcome 7** - We have tackled the significant inequalities in Scottish society.
- **National Outcome 9** - We live our lives safe from crime, disorder and danger.
- **National Outcome 11** - We have strong, resilient and supportive communities where people take responsibility for their own actions.
- **National Outcome 14** - We reduce the local and global environmental impact of our consumption and production.
- **National Outcome 15** - Our public services are high quality, continually improving, and responsive to people's needs.

Our programme of work supports a range of projects aimed at contributing to each of these national outcomes:

#### **National Outcome 9: We live our lives safe from crime, disorder and danger**

Criminal legal assistance contributes to the achievement of this outcome because it helps support the effective operation of the justice system. It provides access to representation for those who would otherwise not be able to afford it and facilitates the efficient operation of the courts

#### **Project: Implementation of a Police Station Duty Scheme**

On 26 October 2010, the Supreme Court found that the law in Scotland, which allows a suspect to be detained and questioned by police for up to six hours without legal representation, was in breach of the European Convention on Human Rights. In advance of this ruling, the Lord Advocate decided that, as an interim measure, suspects would be offered access to a solicitor if they had been detained by the Police. The arrangements came into effect for cases likely to proceed by solemn procedure from 10 June and summary procedure cases from 8 July. The Lord Advocate's interim guidelines were subsequently amended and came into effect on 8 July.

The introduction of the interim guidelines, the monitoring of their arrangements and the work on preparation for the court's decision in October was a substantial project.

On 27 October, the Scottish Parliament introduced the emergency Criminal Procedure (Legal Assistance, Detention and Appeals) (Scotland) Act. The Act gave suspects the right to access to a solicitor before being interviewed. It also extended the initial detention period from six hours to 12, with a possible extension to 24 on the authority of a police officer of the rank of inspector or above. The subsequent regulations imposed a duty on the Board to arrange for solicitors to be available for the purpose of providing advice and assistance to suspects to whom section 15A of the Criminal Procedure (Scotland) Act 1995 applies. As part of the Scottish Government's Senior Working Group, which included the Law Society, we developed the police station duty scheme to meet this regulatory duty. This was launched on 4 July 2011.

#### **Project: Monitoring of the summary justice reforms**

We have continued to monitor the impact of the 2008 Summary Justice Reforms in partnership with the Scottish Government, the Crown Office, the Police, the Scottish Court Service and the Law Society. Our monitoring work highlighted some changes to improve summary criminal legal assistance. We consulted with the legal profession on these proposals and the Scottish Government subsequently introduced regulations in March 2011 as part of the wider legal aid savings package.

**Outcome: Criminal legal assistance supports the effective operation of the justice system.**

**Project: Review of the court duty solicitor scheme**

The Board manages the availability of solicitors to provide representation to accused people through the court duty solicitor scheme. During 2010-2011, Scottish Government sought significant savings in criminal legal aid expenditure through an expansion of the role of the PDSO on the court duty plans and by employing additional solicitors to be able to take on more work. Following negotiation with the Law Society of Scotland, the Cabinet Secretary for Justice agreed that the level of PDSO expansion could be reduced on the basis of an agreed package of legal aid savings that would provide equivalent savings. The Scottish Government adjusted the fees, and the increased involvement of the PDSO in court duty plans was implemented in late 2010-2011. We continue to closely monitor these changes.

We issued a consultation document on changes to the court duty scheme in March 2011, seeking views on how we can ensure that the scheme works effectively, supports the courts and provides advice and representation to accused in the most cost effective way. We plan to implement any changes in 2011-2012.

**Outcome: Providing an effective court duty solicitor scheme that assists the operation of the courts.**

**Project: Granting solemn criminal legal aid**

The Legal Profession and Legal Aid (Scotland) Act 2007 transferred the power to grant solemn criminal legal aid from the courts to the Board. We completed the consultation on our proposed approach to the application of the financial eligibility test in May 2010 and began granting solemn criminal legal aid in November 2010. This change is expected to bring greater consistency in the granting of solemn criminal legal aid.

**Project: Reform of solemn criminal legal aid fees**

In criminal legal aid cases, solicitors are paid at rates set by the Scottish Government in tables of fees. We worked with the Scottish Government and the Law Society of Scotland to reform fee arrangements for solicitors undertaking solemn criminal legal aid work. The new solemn fees for solicitors came into force in July 2010 (backdated to April 2008). We have continued to monitor the operation of these changes to ensure they remain effective.

**Project: Counsel's fees**

At the end of March 2011, following negotiation with the Faculty of Advocates, the Scottish Government implemented new tables of fees for criminal appeal cases for counsel, which increased the fees payable. These were backdated to October 2006. In line with all other amendments to the fee structures we will continue to monitor the changes with a view to identifying any areas which are causing problems or would benefit from modification to improve the flexibility of the system.

**Outcome: Criminal legal assistance supports the effective operation of the solemn justice system.**

**Project: Criminal contributions and financial eligibility in criminal cases**

We helped the Scottish Government to develop a consultation document on the introduction of financial contributions and changes to financial eligibility in criminal legal aid. The consultation having now closed, we will work with the Scottish Government to analyse the responses and further develop proposals for inclusion in future legislation. The changes in financial eligibility are aimed at ensuring that there is a consistent approach between the different types of criminal legal assistance.

**Outcome: Providing advice to Scottish Ministers on eligibility for criminal legal assistance.**

**National Outcome 7: We have tackled the significant inequalities in Scottish society; and**

**National Outcome 11: We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others**

Civil and children's legal assistance contribute to the achievement of this outcome because they help people to access justice who would otherwise not be able to afford it; enables people to challenge inequalities and ensures that they can enforce or defend their rights; and makes advice available to allow people to help themselves and strengthen local communities.

We contribute to these outcomes, not only through the administration of the legal aid system, but also through the direct provision of advice and representation through our network of employed solicitors in Civil Legal Assistance Offices and through the Board's grant funding programme. We provide funding for advice and representation across the country to tackle issues such as debt, housing and employment problems arising from the economic downturn. The Board also does important work to monitor the provision of legal assistance across the country.

**Project: Responding to the economic downturn**

In 2009, the Scottish Government made an additional £3 million available to the Board, up to the end of 2010-2011, to help people who need advice as a result of the economic downturn. Since then, the Board has used this funding to

- provide grant funding of 16 projects to provide advice and representation services across Scotland
- employ solicitors in Highland and Islands, Argyll and Bute, Edinburgh and Aberdeen to provide legal services to people in need, particularly those facing repossession and other problems such as debt; and provide second tier advice to In-Court Advice projects and others
- fund the 8 In-Court Advice projects across Scotland.

The success of these initiatives enabled us to develop proposals that generated support from the Scottish Government for the continued funding of activities in 2011-2012.

**Outcome: People can access advice on issues arising from the economic downturn.**

**Project: Legal Services (Scotland) Act 2010**

The Act introduced new responsibilities for the Board in relation to monitoring and advising Scottish Ministers as to the availability and accessibility of legal services in Scotland. The Act places a duty on the Board to monitor availability and accessibility of legal services, including services not funded by legal aid and with reference to any relevant factor relating particularly to rural or urban areas. To assist us with this, Ministers asked the Board to convene a reference group, made up of representatives of bodies with an active interest in, and experience of, the provision or use of legal services. We have developed a scope, terms of reference and work schedule for the group; and have invited a number of organisations to sit on the group, which met for the first time in June 2011.

**Project: Monitoring supply of civil legal assistance services**

During 2010-2011, we monitored the supply of civil legal assistance across Scotland and made six-monthly reports to the Board. We will shortly publish the annual findings on our website. This is an important element of the work we will do to inform our work under our new duties under the Legal Services (Scotland) Act.

**Outcome: The justice sector can make informed decisions on the provision, planning and co-ordination of advice services to meet the needs of people.**

**Project: Planning and co-ordination of publicly funded legal advice services**

We worked with the Scottish Government and COSLA to update the conclusions on a strategic approach to planning and coordination of publicly funded legal advice services which were reached in the Strategic Review and the Advice for All consultation. Following this, the Scottish Government published a paper for engagement with stakeholders in April 2010-2011. This project now falls under the auspices of the *Widening Access* strand of the Scottish Government's *Making Justice Work* programme. We have assisted the Scottish Government with development of the scope of this project, building on the work already done over a number of years and consultations by the government on access to justice. Proposals for scope and governance will be presented to the *Making Justice Work* Programme Board in the summer of 2011.

**Outcome: A framework within which the provision of advice services can be better co-ordinated across Scotland.**

**Project: Implementation of proposals from Lord Gill's Civil Courts Review**

We worked with the Government to consider the implications for access and the options for legislative and procedural change arising from Lord Gill's Civil Courts Review and the Review of Administrative Justice led by Lord Philip. This project has been subsumed into the Scottish Government's *Making Justice Work* programme.

**Outcome: Improved operation of the civil justice system.**

**Project: Children's Hearings Bill**

We have worked with the Scottish Government and others to assist in the development of the legal aid scheme to support the changes to the children's hearings system, as they come into force. The Board has also developed a draft code of practice for consultation with the profession during 2011-2012.

**Outcome: An effective legal aid system which supports the new Children's Hearings System.**

**Project: Funding of representation in new tribunal structure**

We helped the Scottish Government to develop the legal aid scheme to support the changes to the tribunal structures in Scotland, consistent with the Scottish Government's policy objective of ensuring that state-funded representation continues to be available in relation to those proceedings for which it was available prior to the relevant transfer of functions to the Tribunals. Regulations giving effect to the legal aid changes came into force in June 2010.

**Outcome: An effective legal aid system which supports the new tribunal structures.**

**Project: Review of financial eligibility assessment in civil legal aid**

We reviewed the way in which we assess financial eligibility in civil legal aid with a view to making the process simpler to understand and easier to follow for applicants. This prompted extensive changes to and shortening of the financial application forms. Following a successful pilot, the revised form was introduced in November 2010 and has received very positive feedback.

**Outcome: Simplification of the civil legal aid financial application process.**

**Project: Homeowner and Debtor Protection (Scotland) Act 2010**

We worked with the Scottish Government and other justice sector partners on the implementation of the Act to ensure that those whose home may be at risk can easily access information about the court process, where to seek advice and how legal aid can help.

We contributed to the regulations and guidance for the lay advisor provisions of the Act. With regard to the non-legislative recommendations of the Debt Action Forum, we continued to coordinate the implementation of the recommendations with a number of other bodies through the Repossessions Advice Group, which we chaired. We commissioned Shelter to develop a package of advice and training material for the public, solicitors and the advice sector. This included the creation and launch of a new website *keepingyourhome.co.uk* and the holding of awareness raising sessions across Scotland aimed at the profession and the advice sector.

**Outcome: Improved access to information, advice and representation for those involved in repossession or mortgage rights issues.**

#### **National Outcome 14: We reduce the local and global environmental impact of our consumption and production**

Against the background of the Climate Change (Scotland) Act, which introduced new duties for public bodies to achieve the Scottish Government's targets on emissions reductions, we have reviewed the environmental impact on the Legal Aid Fund (how we pay for legal aid cases) and the Board's administration (our operating costs).

##### **Project: Review scope to reduce travel**

We have focussed our attention on reducing the environmental impact of the legal services we fund by seeking to reduce the impact of travel, the most significant source of emissions relating to the provision of legal aid services, and the one over which we are able to exercise the most influence. During 2010-2011, the hourly rate at which solicitors were paid when they travel was reduced by the Scottish Government.

As part of the Scottish Government's *Making Justice Work* programme, we also lead the Justice-wide project to discourage travel by promoting the use of video links for the conduct of Court and Tribunal proceedings, for legal agents' prison visits and for the provision of advice in police stations. Where appropriate, we will promote the use of such facilities by experts, interpreters and others to further reduce the need for travel and to reduce the associated CO2 emissions and costs.

**Outcome: Reduced environmental impact of the legal and advice services we fund.**

##### **Project: Carbon Management Plan**

The Board has an environmental policy, which has driven achievement of the year on year reduction of our carbon footprint by the use of green electricity and by recycling confidential waste, paper, toners, cups, cardboard, cans, bottles and tubes. In addition, the Board encouraged staff to travel to work using public and active transport, through making available advances for purchase of season tickets and through its scheme to support cycling to work. The Board also has a commitment, as outlined above, to reducing the carbon impact of travel in the services it funds.

**Outcome: Reducing the impact of the Board's administration on the local and global environment.**

#### **National Outcome 15: Our public services are high quality, continually improving, efficient and responsive to local people's needs**

With continuing considerable pressure on public finances, we carried out a major review to identify scope for further reductions in our administration costs and the Legal Aid Fund. Our outcome targets were defined with a view to contributing to an efficient, high quality public service which is responsive to stakeholders' needs.

##### **Project: Legal Aid Online**

Legal aid online allows solicitors to submit legal aid applications and accounts through the internet. This allows the Board and solicitors' firms to work more efficiently. In line with our well-publicised objective, on 1 April 2011 we implemented the first part of our transition from paper processes by no longer accepting paper applications for legal aid. With the exception of court grants, all applications must now be submitted online, subject to some initial flexibility in supporting the profession with the changeover.

The next stage of the transition to paperless legal aid processes, which will be implemented during 2011-2012, will be to stop accepting paper legal aid accounts.

**Outcome: By the end of 2010-2011, all legal aid applications are received online.**

**Project: Quality assurance for solicitors**

The Board and the Law Society of Scotland already operate a civil quality assurance scheme to assess whether the publicly funded advice and representation given by solicitors in civil matters is of a good standard. We introduced a system of criminal quality assurance for solicitors in summer 2010 to provide a similar level of assurance. This began with the peer reviewers' firms initially and will be rolled-out in 2011-2012. In addition, the Civil Quality Assurance Committee proposed that a more representative sample of the work done by firms was obtained by conducting initial file reviews on "at risk" areas of legal assistance. These changes were agreed by the Law Society and the Board, and were implemented for the start of the third cycle of civil quality assurance reviews, early in 2011.

**Outcome: Legal assistance services provided by solicitors and counsel are of good quality.**

**Project: Review of the potential for savings in the Legal Aid Fund and the Board's administrative budget**

In 2010-2011, we reviewed the Legal Aid Fund (the advice and representation services we pay for) and the Board's administrative budget to identify areas where potential savings can be made.

The Board's administrative budget has been capped over the last four years and represents a real terms reduction of 7% over that period. It has meant that staff pay increases (to meet the final year of the pay agreement) and other increases in costs due to inflation have had to be met through efficiency gains which reached £1.1m pa by the end of 2010-2011. This comes at a time of increasing workloads and assumption of additional responsibilities. We have developed further savings plans to deal with the cash reduction of £1.1m from the Board's administrative budget for 2011-2012, bringing the real terms cut to 16% over the last four years.

As part of the Scottish Government's Spending Review 2010, we worked with the Scottish Government and the legal profession to develop a programme of changes to the legal aid system that seeks to save a further £10m from the legal aid fund in 2011-2012 but also protects access to justice.

**Project: Best Value Reviews**

During 2010-2011, we continued our programme of Best Value Reviews. These reviews look at specific areas of legal aid to assess whether the required outcomes are being delivered along with value for money. Previous reviews have resulted in changes being made that are delivering savings in legal aid.

*Special Urgency in civil legal aid* - We carried out a major review of the special urgency provisions in civil legal aid to allow us to assess how the provisions are being used by the profession and to propose changes to the arrangements if necessary. This review identified significant opportunities for efficiencies and improvements to be delivered through such things as reducing the scope of regulation 18 in certain circumstances, improved guidance for the profession, and the ability to refuse the use of regulation 18 or to pay accounts in the absence of necessary information. The Scottish Government introduced regulations at the end of 2010-2011 giving force to a number of the review's recommendations.

*Civil case costs* - Our Best Value Review of civil case costs has highlighted areas for savings and achieving better value from civil legal aid. This project has centred on a review of: cases where both parties are in receipt of legal aid, high cost cases, the use of stage reporting, the use of bar reports and the use of templates in civil advice and assistance. This project will continue into 2011-2012.

*Mental Health* - Since the inception of the Mental Health Tribunal for Scotland in 2005, the cost of advice, assistance and representation for those who become subject to the terms of the Mental Health (Care and Treatment) Act 2003 has grown very significantly. Given this increase and some concerns expressed to the Board about both the availability and quality of legal services in this field, the Board undertook a Best Value Review of Mental Health to establish whether the current system offers appropriate access to legal advice, assistance and representation in a manner which represents best value for the Fund.

Following the review, the Board plans to build on the relationships established during the course of the review with the Mental Health Tribunal for Scotland, the Mental Welfare Commission, the Law Society of Scotland and practitioners and other stakeholders, including the Scottish Association for Mental Health, with a view to developing a consensus view of best practice in this field. To reduce the cost of travel and encourage more local supply, the Scottish Government has already reduced the payments available for travel in order to reduce expenditure and remove incentives to travel more than is necessary. The Board has also restructured the template system for authorised expenditure to reflect best practice and is working to develop a block or fixed fee structure that reflects and incentivises best practice and local provision wherever possible.

To ensure the availability of local services in the immediate future, solicitors employed by the Board in the Civil Legal Assistance Office will deliver a mental health advice and representation service. To help encourage local supply the Board is working with the Scottish Association for Mental Health and advocacy groups to assist them in making referrals to local solicitors willing and able to undertake this work. Looking forward, to address both supply and quality issues in the longer term, the Board will give further consideration to the idea of contracting with practitioners to deliver these services. Finally, to reduce the cost, and inconsistency in cost, of independent psychiatric reports, a proactive approach will be taken to standardising costs payable.

*Immigration and Asylum* - The Best Value Review of Immigration and Asylum was carried out following the Board's concerns over increases in expenditure over recent years and about the supply of legal services and the operation of the asylum system more widely. As a result of the review the Board identified a number of actions to ensure that there is appropriate access to legal help in a way that represents best value for public funds, including reducing costs by reducing fees for travel; controlling costs further and ensuring a consistent level of service is available at the Dungavel detention centre; and changes to allow greater scrutiny by the Board of the merits of judicial review cases and where work begins under the "special urgency" regulations.

**Project: Tables of fees for counsel in civil and children's cases**

We worked with the Scottish Government, the Faculty of Advocates, the Society of Solicitor Advocates and the Law Society of Scotland to develop, for the first time, tables of fees for civil counsel in the Sherriff Court; and to update the table of fees for civil counsel in Court of Session cases. These tables will ensure that counsel are paid appropriately for the work that they do and to ensure value for money for the taxpayer. The Scottish Government introduced regulations in March 2011 which gave effect to the table of fees.

**Project: Benchmarking of corporate services functions**

During 2010-2011, we continued to take part in the Scottish Government's study of corporate services functions - finance, HR, ICT, estates management, communications and legal services for executive agencies, non-ministerial departments and non-departmental public bodies. We have contributed to the data-gathering exercise and are continuing to use the outcomes to develop action plans that will improve processes and practice. We have participated actively in the overarching Project Board, the functional "expert groups" and in peer groups, where we have worked with peers to share best practice across participating organisations and, where identified, implement more efficient ways of working.

**Outcome: Providing value for money to the taxpayer.**

**Project: Supplier Support Strategy**

Piloting of the provision of feedback to firms about our experience of their applications and accounts and other interactions with us, has informed our on-going design of automated reports that will form the basis for future engagement. We expect this will help improve the efficient operation of legal aid to the benefit of applicants, firms, the Board and the taxpayer.

**Outcome: Improving the efficiency of the legal aid system.**

**Project: Research programme**

Our research programme continues to provide a strong evidence base to support operational and strategic priorities. Typically, projects cover stakeholder engagement, work to monitor supply issues and to support policy and operations. Along with research on stakeholder views on the operation, impact and future delivery of the Prison Advice Project and on asylum seekers' views on the legal processes involved in the application for asylum, the periodic staff and solicitors' surveys highlighted the strong focus on stakeholder engagement in 2010-2011. This provided a sound basis on which to continue to build our evidence base about how legal aid is accessed, used and viewed by those that use and deliver legal aid. The research also helped support both the implementation the Board's key Legal Aid Online system and its Best Value Reviews.

**Outcome: The Board and the Scottish Government making informed decisions on improvements to legal assistance based on the Board's research.**

**Project: Trends analysis**

We have continued to conduct trends analysis to monitor the volume and types of applications for legal aid we receive, the implications for Legal Aid Fund expenditure, the numbers of solicitors and firms providing legal aid services and any possible access to justice issues. We also use this analysis to identify practices in solicitors' firms that may require investigation. We have also continued our work to verify legal aid suppliers' accounts by checking account entries against third party records, such as prisons, courts and tribunals.

**Project: Verification of applicants' financial circumstances**

Consistent with our need to obtain evidence of the financial information provided to us by applicants for legal aid, including checking benefits received with the Department for Work and Pensions, we have continued to check samples of the information provided by applicants and have pursued those who provide incorrect or false information. Having published revised guidance in 2010 regarding the operation of financial verification by solicitors in advice and assistance, we have monitored the effectiveness of the guidance issued to the profession and issued a number of updates to the profession to give feedback on their operation of the checks.

In addition, the Scottish Government laid regulations in early 2011 which introduced more prescriptive arrangements for advice and assistance whereby a solicitor is required, so far as necessary and practicable, to obtain from a client financial or other documentation in order to be satisfied as to eligibility.

**Outcome: Minimising the risks and incidence of fraud and abuse in legal aid.**

**OPERATIONAL PERFORMANCE 2010-2011**

Our main roles include taking decisions on legal aid applications and assessing and paying the accounts of solicitors and counsel. We set performance indicators and targets to provide a measure of our performance. Our targets are agreed by Scottish Ministers annually.

The key measures of our performance are our headline indicators, which combine individual timeliness and accuracy targets for each legal aid type. They are weighted equally so that we achieve an appropriate balance between the measures for speed of processing and the quality of decisions. The accuracy and timeliness indicators are themselves the product of combining the results for our performance against detailed targets for accuracy and timeliness for each type of legal aid application or account.

Continuing the trend of recent years, in 2010-2011 we made a number of our existing targets tougher, either by shortening the timescales within which we aim to process applications (our service standards), or by increasing the percentage of cases in which we aim to meet our service standard, or both.

Our performance against the headline indicators is set out in the table below:

Headline indicators	Target	Performance for year
Criminal legal aid	99%	97%
Civil legal aid	97%	97%
Children's legal aid	99%	99%
Advice and assistance	97%	99%
Criminal accounts	97%	99%
Civil accounts	97%	98%
Children's accounts	97%	99%
A&A accounts	97%	97%

In 2010-2011, the Board met all but one of its headline indicators. In Criminal Legal Aid, although the Board met its accuracy targets, unfortunately, we failed to meet the overall criminal timeliness target. This was because in the latter part of the year the majority of our applications were being received online, with their performance being measured against a very tight 4 day online service standard, rather than the 7 day paper standard. In fact, although a number of cases failed, there was no adverse impact on the Courts since the online target was considerably shorter than the previous target for paper applications. It is clear that the 4 day target was unnecessarily tight and, after review, the target for 2011-2012 has been set at 5 days.

## MAIN TRENDS IN LEGAL AID EXPENDITURE AND APPLICATIONS

On a cash basis, net expenditure on the Scottish Legal Aid Fund was £161m, compared to £151m in 2009-2010:

	2010-11 Cash basis £m	2009-10 Cash basis £m
<b>Civil legal assistance</b>		
Civil legal aid	38.8	35.0
Civil advice & assistance and ABWOR	22.1	21.2
Civil Legal Assistance Office	1.1	1.7
In court advisors	0.5	0.4
Grant funding of economic downturn advice	1.3	0.5
Less operating income	(11.7)	(10.9)
<b>Total net civil legal assistance cash expenditure</b>	<b>52.1</b>	<b>47.9</b>
<b>Criminal legal assistance</b>		
Summary criminal legal aid	35.2	31.6
Solemn criminal legal aid	40.8	39.1
Criminal appeals	4.2	3.3
Criminal advice & assistance and ABWOR	21.0	21.1
Duty scheme	1.3	1.4
Contempt of court	0.2	0.2
Public Defence Solicitors' Office	1.5	1.8
<b>Total criminal legal assistance cash expenditure</b>	<b>104.2</b>	<b>98.5</b>
<b>Children's legal assistance</b>		
Children's legal aid	4.6	4.5
Children's advice & assistance and ABWOR	0.5	0.4
<b>Total children's legal assistance cash expenditure</b>	<b>5.1</b>	<b>4.9</b>
<b>Total cash expenditure</b>	<b>161.4</b>	<b>151.3</b>

The basis of preparation for the annual accounts (the accruals basis) results in accounting adjustments, including depreciation, accruals and prepayments. Once such adjustments are made, the statement of comprehensive net expenditure, below, shows a net cost of operations, of £171m (2009-2010: £148m).

Legal aid expenditure fluctuates from year to year for a variety of reasons. The main drivers for the rise in legal aid expenditure both on a cash basis and on an accruals basis, as shown above, are:

- The change in Value Added Tax from 15% to 17.5% in 2009-2010 and then to 20% in January 2011;
- Increases in the cost of civil legal aid following a substantial rise in applications over the previous two years;
- A substantial increase in the number of summary criminal legal aid accounts paid during the year;
- Fee increases, including backdated elements, agreed by the Scottish Government, for solicitors in solemn and civil cases and counsel in appeal cases and;
- Additional high cost cases.

### Civil legal assistance

Current trends show that after years of reductions, numbers of applications and grants for civil legal aid have been rising in recent years. This rise has been very significant, with applications up by 12% in 2008-2009 and by a further 24% in 2009-2010 to a 10-year high of 22,000 applications. Although the rate of increase has slowed slightly in 2010-2011 to around 21,000 applications per annum, these levels are still historically very high. Because of the lag between applications and receipt of accounts, the total net civil legal assistance cash expenditure rose by only 9%.

The high numbers of applications appear, in part, to reflect the increased demand as a result of the recession (e.g. debt and family breakdown issues like divorce and contact with children). However, the increase is also down to an increased willingness by solicitors to offer publicly funded civil legal assistance work.

Total grants of civil advice and assistance have fallen slightly by around 5% in 2010-2011 to around 90,000.

### **Criminal legal assistance**

2008-2009 saw major reforms of the summary justice system and subsequently legal assistance in order to support these reforms. As anticipated, this has led to a shift in cases from summary legal aid to ABWOR, earlier pleading and has increased the speed of cases going through the system. The combined volume of summary and ABWOR applications has increased since the reforms. This increase in volumes is being offset, in cost terms, by the greater than anticipated reduction in criminal advice and assistance, which we predict will continue. The net result has been significant savings in expenditure, against historic levels, arising from the reform of summary criminal legal aid.

In 2010-2011 receipts of summary criminal legal aid applications fell by about 3% to around 59,000. Total grants of ABWOR in 2010-2011 have fallen by 9% to around 43,000 with grants of advice and assistance falling by 1% to around 28,000. The trend in cash expenditure was up in 2010-2011 because of the increase in VAT and a higher volume of accounts being processed.

The pattern of expenditure on legal aid for more serious cases has shown some volatility in recent years. 2009-2010 saw the overall volume of solemn criminal legal aid applications end in line with the previous year. For 2010-2011, grants of solemn criminal legal fell by around 5% to just above 11,000. As well as the effect of the VAT increase, expenditure on solemn criminal legal aid rose as a result of a fee increase for solicitors in 2010-2011 and associated back-dated fees.

Expenditure on criminal appeals rose principally because of higher case costs due, in part, to increased fee rates for counsel introduced by the Scottish Government and the rise in VAT. The cash impact of backdated fees will not be felt until 2011-2012.

### **Children's legal assistance**

2010-2011 saw an increase in volumes of applications, advice and assistance intimations having risen by 2.5%, while grants of children's legal aid by the courts have risen by a more modest 0.8%. Case costs in children's legal aid cases had been falling for a number of years, although 2009-2010 saw an increase, mainly associated with a solicitors' fee increase which came into effect in June 2009. The main component of the rise this year has been a continuation of the trend of increases in the cost of outlays, up 24% on 2009-2010, most notably for expert witnesses and items of unusual expenditure. Expenditure on legal aid for children is particularly susceptible to the impact of a small number of very expensive cases. In 2010-2011, there were nine cases costing more than £50,000, and their total cost was £1.1 million.

## **ADMINISTRATION OF LEGAL AID**

The Board's administration costs are funded through grant-in-aid from the Scottish Government. Unlike the Legal Aid Fund, the Administrative Budget is capped. On a cash basis, net expenditure of the Scottish Legal Aid Board was £13.2m, compared to £13.4m in 2009-2010. The basis of preparation for the annual accounts (the accruals basis) results in accounting adjustments, including depreciation, accruals and prepayments. Once such adjustments are made, the statement of comprehensive net expenditure shows a cost of operations, including pension costs of £15.5m (2009-2010: £15.0m).

The Board's administration budget provided by the Scottish Government has been frozen in cash terms at the 2007-08 level for the last three years. This represents a fall in real terms of 7%.

### **Efficient government**

There is a downward trend in the Board's administrative expenditure, consistent with the Scottish Government's target that the Board achieve 2% pa efficiency savings. The capping of the Board's budget at the 2007-08 level for the years 2008-2009 to 2010-2011 has meant that staff pay increases and other increases in costs due to inflation have had to be met through efficiency gains which will total £1.1m pa by the end of 2010-2011, this is a real terms reduction of 7% over three years. This was also at a time of increasing workloads through substantial increases in civil legal aid applications and additional responsibilities

given to the Board by the Scottish Government. An additional reduction of £1.1m in 2011-2012 will bring the real terms cut to 16% over the last four years.

Living within these budgets has been and will continue to be challenging. Achievement of efficiencies has been centred on themes of digitisation and online services, improved procurement and asset/space management. In addition, the administration budget has accommodated changes to the Board's responsibilities without additional resource, including the introduction of quality assurance for criminal legal assistance and the transfer of the power to grant of solemn criminal legal aid from the courts.

The Board has recently carried out an exercise to assess the value to the taxpayer of the work that it carries out. We have estimated that through such things as refusing applications and sanction applications for high cost work, abating solicitors' accounts where necessary and recovering funds through our audit and compliance work, we make direct savings in excess of £40m per year.

### Corporate governance

The Board periodically reviews and amends its approach to both corporate governance and risk management. Reviews of both areas during 2009-2010 concluded that the approach to each was in line with best practice. The next review of Corporate Governance is scheduled to take place in 2011-2012.

### Employee sickness absence

Employee sickness absence for 2010-2011 was 7.8 days per whole time equivalent (WTE) staff member (2009-2010: 7.8 days per WTE). This was made up of 3.4 days per WTE for self-certified absence (2009-2010: 2.9 days per WTE) and 4.4 days per WTE for certified absence (2009-2010: 4.9 days per WTE). These results compared favourably to comparative peer data: the Chartered Institute of Personnel and Development Annual Survey Report "2010 Absence Management" quoted average absence for the whole of public services at 9.6 days per employee; and the Cabinet Office's analysis of sickness absence in the Civil Service reported absence at 8.7 days per employee.

### Employee communication

The Board issues a monthly newsletter and occasional circulars for staff about matters of concern to them, including performance. Managers and staff discuss these during team briefing sessions. The Board conducts periodic employee opinion surveys to obtain staff views on issues such as communications, training and development, management practices, and quality of service. A joint consultative committee of management and union representatives meets regularly.

The Board continues to give staff the opportunities and support needed to develop their skills in meeting the organisation's objectives.

### Equal opportunities

The Board is committed to the development and promotion of equality of opportunity for all. It is committed to providing equal opportunities in employment. It does not treat any job applicant or employee less favourably because of gender, race, colour, religion, nationality, age, disability, sexual orientation or marital status. This applies in the recruitment, reward, training and promotion of both new and existing employees. It also applies to grievance, disciplinary, or other procedures, employee benefits and all terms and conditions of employment.

### Public Services Reform (Scotland) Act 2010

Under the Public Services Reform (Scotland) Act 2010, the Board has a duty to publish the following information:

- details of any expenditure incurred on public relations, overseas travel, hospitality and entertainment, and external consultancy;
- a statement specifying the amount, date, payee and subject matter of any payment with a value in excess of £25,000;
- a statement of the steps taken during the year to promote and increase sustainable growth through the exercise of our functions and;
- a statement of the steps taken during the year to improve efficiency, economy and effectiveness in the exercise of our functions.

The Board will publish this information on its website as soon as is practicable after the end of the financial year.

### Payment of suppliers

The Board's payment policy for suppliers in respect of its administrative expenditure is to agree payment terms when placing orders for goods and services and, whenever necessary, ensure that suppliers are aware of the Board's terms of payment. The Board aims to comply with these terms subject to satisfactory performance by the supplier. The Board adheres to "The Better Payment Practice Code". The Board is also committed to meeting the Scottish Government's aspiration of paying small business suppliers within 10 days. To this end, from 1 April 2010, the Board revised its published target for invoice payment to 10 days in 90% of cases. In 2010-2011, the Board met this target in 94% of cases.

### Environmental matters

The Board has considered the existing legislation and guidance available on environmental and sustainability matters. The Board places importance on ensuring that its policies and procedures are in line with good environmental practice and statute. The Board has an environmental policy.

Since 2008-2009, the Board has measured the organisation's carbon footprint. We have reduced our carbon footprint, year on year, by the use of green electricity and by recycling of confidential waste, paper, toners, cups, cardboard, cans bottles and tubes.

To encourage staff to travel to work using active transport, we have introduced a salary sacrifice scheme to support cycling to work. Staff can give up part of their salary in exchange for a bike and certain accessories, to be used for commuting and/or travelling between workplaces. This is in addition to the scheme we already have in place to enable staff to purchase annual season tickets with an advance for travel.

In 2009-2010 we intimated an intention to look for ways to reduce the environmental impact of the legal services we fund, particularly by seeking to reduce the impact of travel, the most significant source of emissions relating to the provision of legal aid services, and the one over which we are likely to be able to exercise the most influence. To this end, during 2010-2011, the Scottish Government introduced revised fee rates, in line with other jurisdictions, to pay a reduced hourly rate when solicitors travel. We will continue to address the carbon impacts of travel through our oversight of a Justice-wide project to discourage travel by promoting the use of video links, for the conduct of Court and Tribunal proceedings, for Legal Agents' Prison Visits and for the provision of advice prior to, and attendance at, police interviews.

Where appropriate, we will also seek to promote the use of such facilities by experts, interpreters and others, which may also provide an opportunity to further reduce the need for travel and the associated CO2 emissions and costs.

### THE BASIS OF GOING CONCERN

In line with the *Government Financial Reporting Manual*, issued annually by HM Treasury, these annual accounts are required to reflect International Accounting Standard 19 "*Employee benefits*". This requires entities to recognise, in their accounts, the costs, the assets and the liabilities of pension schemes.

As shown in note 34, the actuarial estimate of the Board's accrued pension liabilities stands at £42m. This reflects the inclusion of liabilities falling due in future years. The Board's pension scheme, being "unfunded", has no tangible assets. Rather, in accordance with arrangements set out in the Legal Aid (Scotland) Act 1986, pensions and other liabilities are met from grant-in-aid as they fall due, resulting in the scheme's reliance on future funding from the Scottish Government. Accounting rules and convention currently prohibit the Board anticipating such funding in these accounts, resulting in the Scottish Legal Aid Board's statement of financial position on page 47, showing a net liability and negative taxpayer's equity.

This technical accounting practice has no impact on the underlying basis for meeting the Board's current and on-going pension liabilities. These will be met out of the Board's funding from the Scottish Government, in accordance with arrangements set out in the Legal Aid (Scotland) Act 1986. The Scottish Government has given the Board a written assurance that there are no plans to change the existing arrangements whereby they fund the Board's administrative costs, including the provision for the net pension costs, through grant-in-aid. Further, they state that there are no plans to wind up the Board, and that if this was ever to become

a possibility, then the liabilities falling due under the pension scheme would be a matter which the Scottish Government would require to recognise through the legislation that was considered by Parliament.

Similarly, changes in accounting practice introduced in 2006-07 mean that the Board can no longer adopt its previous approach of reflecting a debtor in respect of future income from the Scottish Government relating to the £67m valuation of work in progress for legal aid certificates in issue. The absence of such a balancing debtor is reflected by a position where liabilities will exceed assets, resulting in the Scottish Legal Aid Fund statement of financial position on page 30, showing a net liability and negative taxpayer's equity.

This technical accounting approach has no impact on the underlying basis for meeting the Board's current and on-going obligations to solicitors and advocates in relation to the payment for work done on legal aid certificates in issue. These will be met out of the Board's funding from the Scottish Government in accordance with arrangements set out in the Legal Aid (Scotland) Act 1986, which creates a statutory obligation for payment of sums due to any solicitor or counsel out of the Legal Aid Fund.

Accordingly, it has been considered appropriate to adopt a going concern basis for both the Scottish Legal Aid Fund and the Scottish Legal Aid Board in the preparation of these financial statements.

## AUDIT

KPMG LLP carried out the audit of the Board's accounts for the financial year ended 31 March 2011, covering both the Scottish Legal Aid Fund accounts and the Scottish Legal Aid Board accounts. The agreed fee for this service was £44,500, which relates solely to the provision of statutory audit services.

## REPRESENTATIONS

The Accountable Officer and the Board members who held office at the date of approval of these accounts confirm that, so far as they are each aware, there is no relevant audit information of which the Board's auditors are unaware; and the Accountable Officer and each of the Board members has taken all the steps that he/she ought reasonably to have taken to make himself/herself aware of any relevant audit information and to establish that the Board's auditors are aware of that information.



**Lindsay Montgomery CBE**  
Chief Executive and Accountable Officer  
27 July 2011

The Scottish Legal Aid Board determines the pay and conditions for staff according to the annually published policy set out in The Scottish Government's Public Sector Pay Policy for Staff Pay Remits.

Public Sector Pay Policy sets the parameters for public sector pay increases for a range of public bodies in Scotland, including the Scottish Legal Aid Board. The Board is required to seek approval from the Scottish Government for their proposals within these parameters and then negotiate detailed pay settlements with trade unions and staff.

### Remuneration and Appointments Committee

During 2010-2011 the Board's Remuneration and Appointments Committee comprised the following members:

Graham Watson	Board member and Convener of Remuneration and Appointments Committee
Iain A Robertson CBE	Board Chairman
Bill McQueen CBE	Board member

The purpose of the Remuneration and Appointments Committee is to consider appointment and remuneration of the Board's senior staff and to take an overview of remuneration issues, including the staff pay remit submitted to the Scottish Government, pension policies and related matters.

### Senior management

Appointments of senior management are in accordance with individual contracts:

Name	Type of contract	Employment start date	Notice period
Lindsay Montgomery CBE	Permanent	1 July 1999	3 months
Ian Middleton	Fixed term	1 October 2010	4 weeks
Andrew Menzies	Permanent	3 March 2003	12 weeks
Tom Murray	Permanent	1 May 1986	12 weeks
Colin Lancaster	Permanent	20 June 1997	12 weeks

The current Senior Management on permanent contracts all have a minimum pensionable retirement age of 60 years of age. All contracts include notice periods as indicated above. Termination payments, where appropriate, are made under the Board's redundancy policy which allows either for a redundancy payment or, where an individual is over 50 years old, a retirement pension and lump sum.

Annual pay awards and non-consolidated performance payments for the Chief Executive and directors are based on performance.

The Chief Executive's performance is appraised by the Chairman in consultation with the Remuneration and Appointments Committee. His annual pay award and non consolidated performance payments of up to 10% of base salary are considered by the Remuneration and Appointments Committee and approved by the Scottish Government. The Chief Executive volunteered to waive all of the bonus payment due in 2010-2011.

In 2010-2011, Directors' salaries were revalorised by 1%, subject to at least satisfactory performance. Directors are also eligible for non consolidated performance payments of up to 10% of base salary. Their performance is appraised by the Chief Executive under the Board's Performance Management system which applies to all staff. The non consolidated performance payment levels awarded are approved by the Remuneration and Appointments Committee.

The following tables provide a breakdown of executive and non-executive directors' remuneration in 2010-2011 and 2009-2010 and have been audited by the Board's auditors.

	Total remuneration 2010-11 £000	Total remuneration 2009-10 £000	Real increase in pension and related lump sum at age 60 £000	Accrued pension at age 60 at 31 March 2011 and related lump sum £000	Cash equivalent transfer value at 31 March 2011 £000	Cash equivalent transfer value at 31 March 2010 £000	Real increase in cash equivalent transfer value £000
<b>L Montgomery CBE, Chief Executive</b>							
Salary	105 - 110	100 - 105					
Performance pay	0	5 - 10					
Pension			0 - 2.5	55 - 60			
Related lump sum			5 - 7.5	165 - 170			
Transfer value					1,231	1,109	32
<b>I Middleton, Director of Audit and Compliance*</b>							
Salary	40 - 45	55 - 60					
Performance pay	0 - 5	0 - 5					
<b>A Menzies, Director of Corporate Services and Accounts</b>							
Salary	65 - 70	65 - 70					
Performance pay	0 - 5	0 - 5					
Pension			0 - 2.5	20 - 25			
Related lump sum			0 - 2.5	65 - 70			
Transfer value					325	293	2
<b>T Murray, Director of Legal Services and Applications</b>							
Salary	75 - 80	75 - 80					
Performance pay	5 - 10	5 - 10					
Pension			0 - 2.5	20 - 25			
Related lump sum			0 - 2.5	70 - 75			
Transfer value					570	518	7
<b>C Lancaster, Director of Policy and Development</b>							
Salary	55 - 60	55 - 60					
Performance pay	0 - 5	0 - 5					
Pension			0 - 2.5	5 - 10			
Related lump sum			0 - 2.5	25 - 30			
Transfer value					91	78	3

\* Ian Middleton retired as a permanent employee on 31 August 2010. He returned to the Board's employment on 1 October 2010 on a fixed-term part-time non-pensionable contract, which ends on 31 August 2011. The remuneration figure above includes salary payments as a permanent employee and those received whilst on the fixed term contract. In addition to these payments, he also received a lump sum of £64,609 on retirement and pension payments of £12,563 during the year to 31 March 2011.

### Cash equivalent transfer value (CETV)

This 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 pension 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 include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Legal Aid Board Pension Scheme and for which the Board has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

### Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It does not take account of the increase in accrued pension due to inflation or 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.

## Board members

The remuneration for the Chairman and other Board members is determined by the Scottish Government. Under the current Scottish Government policy, the basic remuneration for the Chairman and Board members is revalorised annually, providing performance is at least satisfactory, at a rate of increase that is set by Ministers as informed by the recommendations of the Senior Salaries Review Body. For 2010-2011 a nil increase applied. The Chairman formally assesses the performance of Board members annually against criteria as agreed between the Chairman and the Scottish Government. The current criteria include: commitment/contribution; team working; ability to constructively challenge within the Board; contribution to strategy/policy formulation; and specific areas of contribution. Remuneration of the Board members for 2010-2011 was as follows:

Name	2010-11 £000	2009-10 £000
Les Campbell	5-10	5-10
Joseph Hughes	10-15	10-15
Denise Loney	5-10	5-10
Alastair Kinroy QC	5-10	-
Ray MacFarlane	5-10	-
Paul McBride QC	5-10	5-10
Susan McPhee	5-10	5-10
Bill McQueen CBE	5-10	-
Iain A Robertson CBE (Chairman)	30-35	30-35
Elaine Rosie	5-10	5-10
Sheriff Ray Small (not remunerated)	-	-
Graham Watson	5-10	5-10

Other than the Chairman, Board members are not members of the Board's pension scheme. Details relating to the Chairman's pension benefits were as follows:

	Real increase in pension and related lump sum at age 60 £000	Accrued pension at age 60 at 31 March 2011 and related lump sum £000	Cash equivalent transfer value at 31 March 2011 £000	Cash equivalent transfer value at 31 March 2010 £000	Real increase in cash equivalent transfer value £000
I A Robertson, Chairman					
Pension	0 - 2.5	0 - 5			
Related lump sum	0 - 2.5	10 - 15			
Transfer value			81	72	5

Appointment of the Chairman by the Scottish Government is on a part-time basis (2 days a week) for a fixed term (normally 4 years) which is renewable for a second term but there will be no automatic renewal or extension of the appointment. The Board members are appointed by the Scottish Government on a part-time basis (3½ days per month) for a fixed term of 3 or 4 years, which is renewable for a second term but there will be no automatic renewal or extension of the appointment beyond the first term. Scottish Ministers may terminate Board appointments giving 3 months' notice in writing prior to the intended date of termination where appropriate.



**Lindsay Montgomery CBE**  
**Chief Executive and Accountable Officer**  
**27 July 2011**

The Legal Aid (Scotland) Act 1986 ("the Act"), as amended by the Public Finance and Accountability (Scotland) Act 2000, states that the Scottish Legal Aid Board must prepare a statement of accounts for each financial year in the form and on the basis determined by Scottish Ministers and set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Scottish Legal Aid Fund and the Scottish Legal Aid Board and of its income and expenditure, recognised gains and losses and cash flows for the financial year.

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

- observe the accounts direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies consistently
- make judgements and estimates reasonably
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and show and explain any material departures in the financial statements
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Board will continue to operate.

The Scottish Government has designated the Chief Executive of the Scottish Legal Aid Board as the Accountable Officer for the Board. The responsibilities of an Accountable Officer, including responsibility for the propriety and regularity of the public finances for which I am answerable, for keeping proper records and for safeguarding the Board's assets are set out in the *Non-Departmental Public Bodies' Accountable Officer Memorandum*.

The Chief Executive is responsible for the maintenance and integrity of the corporate and financial information, including that published on the Scottish Legal Aid Board's website.



**Lindsay Montgomery CBE**  
**Chief Executive and Accountable Officer**  
27 July 2011

### Scope of responsibility

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Scottish Legal Aid Board's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am responsible, in accordance with the responsibilities assigned to me.

The Board is a Non-Departmental Public Body sponsored by the Scottish Government's Justice Directorate. The broad framework within which the Board operates, in particular the rules and guidelines relevant to the exercise of the Board's functions, duties and powers; the conditions under which any public funds are paid to the Board; and how the Board is to be held to account for its performance are governed by a *Management Statement* and associated *Financial Memorandum* drawn up by the sponsor directorate in consultation with the Board. A revision of the *Management Statement and Financial Memorandum* was agreed in May 2010. Notwithstanding the requirement that the *Management Statement and Financial Memorandum* shall be reviewed by the sponsor Directorate normally at least every 3 years, the Board or the sponsor Directorate may propose amendments at any time.

The Board has a Chairman appointed by Scottish Ministers and consists of not less than 11 and not more than 15 members who are appointed by Scottish Ministers. The Board is responsible for the governance and strategic leadership of the organisation, including determining the Board's strategic aims, approving its corporate plan and monitoring and reviewing operational and financial performance. Board Committees are in place to deal with areas such as audit; legal aid policy; complex, sensitive or high profile legal aid cases; and remuneration and appointments. The Board meets regularly and I and directors attend these meetings.

The Audit Committee is composed solely of Board members. The Audit Committee reports to the full Board. As part of its remit, it is responsible for advising me on the effectiveness of the Board's internal control system. Through the Audit Committee, the Board periodically reviews and amends its corporate governance arrangements. The review undertaken in December 2008 concluded that the Board has a sound framework to support the principles of good corporate governance with best practice. Such a review will be undertaken every three years.

The Board's Executive Team is responsible for the operational and administrative management and leadership of the organisation. The Executive Team comprises of me and directors.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks, including information risks, to achieving departmental policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The wider system of internal control is based on an ongoing process designed to identify the principal risks to achieving Board policies, aims and objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Board for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts, and accords with Scottish Government guidance.

### Capacity to handle risk

The Board and the Executive Team lead the Board's risk management process. Ownership of every identified risk lies with a named member of the Executive Team. The Executive Team assigns risks to managers and reviews risk in all operational and support departments on a monthly basis.

A senior manager is appointed as Risk Management Co-ordinator to deal with training as well as administrative and reporting issues within the Board's risk framework.

The Board's internal auditors have assured the Board and me that its risk management procedures comply with best practice, in the form of the Risk Management Standard of the Institute of Risk Management.

The Board provides training for staff on risk management theory and practice. It encourages all staff to apply risk management techniques to setting and reviewing their personal and departmental objectives, and to contribute to preparing and reviewing risk registers. The Board has documented its risk management process in its "Risk Policy and Framework" document, which is available to all staff. The Board also has a delegated authority matrix. This documents the limits of post holders' authority in specified areas, while setting out the

procedures, such as business cases, for new ventures that involve costs and risk but which may be beneficial to the Board's stakeholders.

The Board periodically reviews and amends its approach to risk management with best practice. The review undertaken in August 2009 assessed the approach to risk management as being in line with HM Treasury's "*Management of Risk - Principles and Concepts*" and the *Institute of Risk Management Standard*. Such a review will be undertaken every three years.

### **The risk and control framework**

Regular review and reporting of risks has taken place throughout the year, with reviews and reports being considered at all levels (team, departments, directorates, Executive Team, Audit Committee and Board). The Executive Team receives and reviews regular updates to departmental risk environments. In liaison with the Risk Management Co-ordinator and Internal Audit Department, the Executive Team and the Audit Committee review, quarterly, the effectiveness of the Board's risk management framework and the content and appropriateness of its strategic risk register. The Board reviews this work annually.

The key elements of the Board's risk management strategy are:

- clear and concise documentation and training for all staff on the Board's definition of risk, its objectives in having a risk framework and staff roles and responsibilities
- a documented and communicated process of identifying and evaluating risks, assessing risk appetite, identifying and implementing suitable responses to risks, providing ongoing assurance about the effectiveness of the framework and processes to embed and review risk awareness; captured in the document entitled "Risk Policy and Risk Framework", which is reviewed on a two yearly cycle by the Executive Team and the Audit Committee
- multi-level review and reporting processes throughout the risk cycle, involving staff, managers, the Executive Team, Internal Audit, the Audit Committee and the Board
- identification and regular review of both the continuing appropriateness of the risks and responses identified and of the on-going status of the identified or planned responses to risks.

The key controls that are built into routine processes are:

- ensuring appropriately skilled and experienced staff are responsible for business processes
- documented procedures exist for all key business processes
- management and independent checking ensure quality of processing
- management information is available to assess the volume, timeliness and quality of processing.

The key ways in which risk management is embedded in the Board are:

- the link between corporate planning and risk management processes
- including risk in routine, regular operational reporting processes
- the ownership and management of risks by directors and managers
- involving the Audit Committee and the Board in agreeing and reviewing strategic and operational risks
- including risk management in training plans and as standing items in team meetings
- using risk registers for each of the Board's projects, as part of the PRINCE2 project management methodology
- the documented timetable of monthly, quarterly and annual reviews of strategic and departmental risk profiles.

More generally, the organisation is committed to a process of continuous development and improvement. Training is available where required to managers and staff on both the principles of risk management and the practical application of risk management within the Board.

### **Review of effectiveness of the internal control system**

The Board has an internal audit service supervised by the Director of Audit and Compliance. Internal audit work concentrates on areas of key activity determined from an analysis of the areas of greatest risk. These are scheduled in the annual audit activity plan approved by the Audit Committee and me. The Director of Audit and Compliance is responsible to me as the Chief Executive and Accountable Officer and makes quarterly reports to the Audit Committee. He has direct access to Board members and to the convener of the Audit Committee.

The Audit Committee and I receive regular reports from the Internal Audit Department, to standards defined in the Government Internal Audit Standards. These include the Director of Audit and Compliance's independent opinion on the adequacy and effectiveness of the Board's system of internal control and

recommendations for improvement. It is also responsible for overseeing financial reporting, external audit, internal control, and audit and compliance department activities.

The Audit Committee regularly reviews progress on implementing Internal and External Audit recommendations.

In addition to the internal audit work carried out each year, the Director of Audit and Compliance seeks assurance over the system of internal control through a rolling programme of annual assurance assessment. This requires managers to confirm the existence of the main internal controls for their areas and to both describe the means by which they satisfy themselves that the system of internal control is operating as intended and to give an assessment of the effectiveness of the controls over the identified risks. Internal Audit perform tests of key controls to validate the manager's assurance. Annually, Directors certify that they have reviewed and are content with the assurances provided by their managers; that they are satisfied that the controls are working well; and that there are no significant matters in their area of responsibility which would require to be raised specifically in the Statement of Internal Control. The outcome of this process is shared with the Executive Team and the Audit Committee.

The Director of Audit and Compliance has issued an Assurance Statement to me, which provides his opinion on the adequacy and effectiveness of the internal control system and the extent to which it can be relied on. The external auditors also report to me, the Audit Committee, and to the Board, any internal control issues that they identify during their normal audit activities.

As Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of its effectiveness is informed by:

- the comprehensive management information received by the Executive Team on all of the Board's operational activities
- the controls that exist over planned expenditure and the regular reporting of actual expenditure and regular review of budgets and forecasts
- the managers within the Board who are responsible for developing and maintaining the internal control framework
- the work of the internal auditors, who submit to me and the Board's Audit Committee regular reports which include the Director of Audit and Compliance's independent and objective opinion on the adequacy and effectiveness of the Board's systems of internal control together with recommendations for improvement
- comments made by the external auditors in their management letter and other reports.

The Board and the Audit Committee have advised me on the implications of the result of my review of the effectiveness of the system of internal control. A plan to address weaknesses and ensure continuous improvement of the system is in place.

#### Significant internal control issues

There were no significant control issues identified this year, nor are there any planned actions arising from previous years against which I am required to report progress.



**Lindsay Montgomery CBE**  
**Chief Executive and Accountable Officer**  
27 July 2011

## **Independent auditor's report to the Scottish Legal Aid Board, the Auditor General for Scotland and the Scottish Parliament**

We have audited the financial statements of the Scottish Legal Aid Board for the year ended 31 March 2011 set out on pages 28 to 57. In accordance with section 5 (1) of the Legal Aid (Scotland) Act 1986 the Scottish Legal Aid Board has a duty to prepare separate financial statements in respect of the Scottish Legal Aid Fund and the Scottish Legal Aid Board (Grant-in-Aid). The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the HM Treasury Financial Reporting Manual 2010-2011.

This report is made solely to the Scottish Legal Aid Board and to the Auditor General for Scotland in accordance with sections 21 and 22 of the Public Finance and Accountability (Scotland) Act 2000. Our audit work has been undertaken so that we might state to those two parties those matters we are required to state to them in an auditor's report and for no other purpose. In accordance with the Code of Audit Practice approved by the Auditor General for Scotland, this report is also made to the Scottish Parliament, as a body. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scottish Legal Aid Board and the Auditor General for Scotland, for this report, or the opinions we have formed.

### **Respective responsibilities of the Accountable Officer and auditors**

As explained more fully in the Statement of the Board's and Chief Executive's Responsibilities set out on page 22, the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and receipts. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and receipts.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts, disclosures, and regularity of expenditure and receipts in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Board's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. This information comprises only the Foreword, the Management Commentary and the part of the Remuneration Report that is not audited. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Scottish Legal Aid Fund's and the Scottish Legal Aid Board's (Grant-in-Aid) affairs as at 31 March 2011 and of the Fund's and the Board's net operating costs for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adapted by the HM Treasury Financial Reporting Manual 2010-2011; and
- have been prepared in accordance with the requirements of the Legal Aid (Scotland) Act 1986 and directions made thereunder by the Scottish Ministers.

### **Opinion on regularity prescribed by the Public Finance and Accountability (Scotland) Act 2000**

In our opinion in all material respects the expenditure and receipts in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

**Independent auditor's report to the Scottish Legal Aid Board, the Auditor General for Scotland and the Scottish Parliament (Continued)****Opinion on other matters prescribed by the Public Finance and Accountability (Scotland) Act 2000**

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Legal Aid (Scotland) Act 1986 and directions made thereunder by the Scottish Ministers; and
- the information given in the Foreword and Management Commentary included in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Public Finance and Accountability (Scotland) Act 2000 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Statement on the System of Internal Control does not comply with Scottish Government guidance.



**Grant Macrae**

**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

Saltire Court, 20 Castle Terrace

Edinburgh, EH1 2EG

**27 July 2011**

**Scottish Legal Aid Fund**  
**Statement of comprehensive net expenditure for the year ended 31 March 2011**

29

	Notes	2010-11 £000	2009-10 £000
<b>Civil legal assistance</b>			
Civil legal aid	3	44,091	34,266
Civil advice & assistance and ABWOR	3	21,583	21,897
Civil Legal Assistance Office	3	1,223	1,040
In court advisors	3	457	444
Grant funding of economic downturn advice	3	1,322	467
Gross civil legal assistance expenditure		<u>68,676</u>	<u>58,114</u>
Less operating income	4	<u>(13,510)</u>	<u>(14,625)</u>
<b>Total net civil legal assistance expenditure</b>		<u>55,166</u>	<u>43,489</u>
<b>Criminal legal assistance</b>			
Criminal legal aid	5	85,329	75,158
Criminal advice & assistance and ABWOR	5	21,309	21,429
Contempt of court	5	220	159
Public Defence Solicitors' Office	5	1,641	1,636
<b>Total criminal legal assistance expenditure</b>		<u>108,499</u>	<u>98,382</u>
<b>Children's legal assistance</b>			
Children's legal aid	6	4,765	4,232
Children's advice & assistance and ABWOR	6	451	421
<b>Total children's legal assistance expenditure</b>		<u>5,216</u>	<u>4,653</u>
<b>Other expenditure</b>			
Miscellaneous legal aid expenditure		44	83
Bad debt (including impairment charges)	9	1,517	911
<b>Total other expenditure</b>		<u>1,561</u>	<u>994</u>
<b>Net operating costs before interest</b>		<b>170,442</b>	<b>147,518</b>
Pension scheme finance costs	17	<u>123</u>	<u>83</u>
<b>Net operating costs</b>		<u><b>170,565</b></u>	<u><b>147,601</b></u>

All income and expenditure is derived from continuing activities.

**Scottish Legal Aid Fund**  
**Statement of financial position as at 31 March 2011**

	Notes	2011 £000	2010 £000
<b>Non-current assets</b>			
Property, plant and equipment	10	6	11
Intangible assets	11	21	-
Trade and other receivables	12	8,973	8,814
<b>Total non-current assets</b>		<u>9,000</u>	<u>8,825</u>
<b>Current assets</b>			
Trade and other receivables	12	4,962	4,842
Cash and cash equivalents	13	4,484	4,307
<b>Total current assets</b>		<u>9,446</u>	<u>9,149</u>
<b>Total assets</b>		<u>18,446</u>	<u>17,974</u>
<b>Current liabilities</b>			
Trade and other payables	14	(8,210)	(9,956)
Provisions	16	(52,553)	(45,707)
<b>Total current liabilities</b>		<u>(60,763)</u>	<u>(55,663)</u>
<b>Non-current assets less net current liabilities</b>		<u>(42,317)</u>	<u>(37,689)</u>
<b>Non-current liabilities</b>			
Provisions	16	(23,027)	(19,089)
Pension scheme liability	17	(2,790)	(2,357)
<b>Total non-current liabilities</b>		<u>(25,817)</u>	<u>(21,446)</u>
<b>Assets less liabilities</b>		<u>(68,134)</u>	<u>(59,135)</u>
<b>Taxpayers' equity</b>			
General fund		<u>(68,134)</u>	<u>(59,135)</u>
<b>Total taxpayers' equity</b>		<u>(68,134)</u>	<u>(59,135)</u>



**Lindsay Montgomery CBE**  
**Chief Executive and Accountable Officer**  
**27 July 2011**

The notes on pages 33 to 45 form part of these accounts.

**Scottish Legal Aid Fund**  
**Statement of cash flows for the year ended 31 March 2011**

31

	Notes	2010-11 £000	2009-10 £000
<b>Cash flows from operating activities</b>			
Net operating cost before Scottish Government funding		(170,565)	(147,601)
<b>Adjustments for non-cash items</b>			
Depreciation on property, plant and equipment and amortisation on intangible assets	10 & 11	7	10
<b>Movements in working capital</b>			
Increase in trade and other receivables	12	(279)	(2,815)
(Decrease)/increase in trade and other payables	14	(1,746)	1,364
<b>Movements in provisions</b>			
Increase/(decrease) in provisions	16	10,784	(2,454)
Pension scheme service and finance costs	17	371	174
Payments in respect of pension scheme	17	-	(2)
<b>Net cash outflow from operating activities</b>		<u>(161,428)</u>	<u>(151,324)</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	-	(7)
Purchase of intangible assets	11	(23)	-
<b>Net cash outflow from investing activities</b>		<u>(23)</u>	<u>(7)</u>
<b>Cash flows from financing activities</b>			
Scottish Government grant-in-aid funding		<u>161,628</u>	150,239
<b>Net cash inflow from financing activities</b>		<u>161,628</u>	<u>150,239</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		177	(1,092)
<b>Cash and cash equivalents as at 1 April</b>	13	<u>4,307</u>	<u>5,399</u>
<b>Cash and cash equivalents as at 31 March</b>	13	<u><u>4,484</u></u>	<u><u>4,307</u></u>

**Scottish Legal Aid Fund**  
**Statement of changes in taxpayers' equity for the year ended 31 March 2011**

	Notes	2011 £000	2010 £000
<b>Balance at 1 April</b>		<b>(59,135)</b>	<b>(60,793)</b>
<b>Changes in taxpayers' equity for 2010-11</b>			
Net cost of operations		(170,565)	(147,601)
Net movement on pension scheme	17	<u>(62)</u>	<u>(980)</u>
<b>Total recognised income and expense for 2010-11</b>		<b><u>(170,627)</u></b>	<b><u>(148,581)</u></b>
Funding from the Scottish Government		<u>161,628</u>	<u>150,239</u>
<b>Balance at 31 March</b>		<b><u>(68,134)</u></b>	<b><u>(59,135)</u></b>

## 1 Accounting policies

### 1.1 Basis of accounting

The accounts have been prepared in accordance with the accounting principles and disclosure requirements of the 2010-2011 *Government Financial Reporting Manual*. Without limiting the information given, the accounts follow generally accepted accounting practices as defined in International Financial Reporting Standards (IFRS) as adopted by the European Union and the Companies Act 2006 to the extent that it is meaningful and appropriate in the public sector context and in and in accordance with the Accounts Direction given by Scottish Ministers. The accounting policies selected have been applied consistently in dealing with items considered material in relation to the accounts.

The Board estimates the value of unbilled live cases each year to arrive at the amounts disclosed within the accounts as a provision. The amount is an estimate of the expenditure required to settle any obligation at the end of the reporting period following the requirements of International Accounting Standard 37 "*Provisions, contingent liabilities and contingent assets*". In estimating the provision, the Board has adopted prudent measurement techniques based on the latest data available. No income is anticipated for cases that may successfully recover costs. As a result the Scottish Legal Aid Board Fund statement of financial position on page 30 shows net liabilities of £68m (2010: £59m). This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from the Board's other sources of income, may only be met by future grants or grants-in-aid from the Scottish Government. This is because, under the normal conventions applying to Scottish Government control over income and expenditure, such grants may not be paid in advance of need. Grant-in-aid for 2011-2012, taking into account the amounts required to meet the Board's liabilities falling during that year, has already been included in the Scottish Government's estimates for that year, which have been approved by parliament, and there is no reason to believe that the Scottish Government's full sponsorship and future parliamentary approval will not be forthcoming. Further, the Legal Aid (Scotland) Act 1986 creates a statutory obligation for payment of sums due to any solicitor or counsel out of the Legal Aid Fund. Accordingly, it is considered appropriate to adopt the going concern basis for the preparation of these financial statements.

### 1.2 Accounting convention

These accounts have been prepared under the historical cost convention modified to account, where material, for the revaluation of property, plant and equipment and intangible assets to fair value as determined by the relevant accounting standard. However, given the short useful economic lives and low values of property, plant and equipment and intangible assets, these assets are disclosed on a depreciated historical cost basis, which is used as a proxy for fair value.

### 1.3 Changes in accounting policy

HM Treasury, under the Clear Line of Sight (Alignment Project) removed the cost of capital charge from budgets and accounts from 1 April 2010. The cost of capital charge is therefore no longer applicable. The removal of the cost of capital charge is a change in accounting policy under IAS 8. Applying paragraph 31 of IAS 1 and, noting that the removal of the cost of capital charge has no effect on the balance sheets, a specific disclosure is not required. The impact on the prior-year statement of comprehensive expenditure is to increase net operating costs by £2,099k to £147,601k.

### 1.4 Corresponding amounts

Corresponding amounts are shown for the primary financial statements and for the notes to the accounts. Where corresponding amounts are not directly comparable with the amount shown in the current financial year, International Accounting Standard 1 "*Presentation of Financial Statements*" requires that they should be adjusted and the basis for adjustment disclosed in a note to the financial statements.

### **1.5 Funding**

Most of the expenditure of the Scottish Legal Aid Fund is met from funds advanced by the Scottish Government within an approved allocation. Cash drawn down to fund expenditure within this approved allocation is credited to the general fund. All income that is not classed as funding is recognised in the period in which it is receivable. Funding for the acquisition of general property, plant and equipment received from the Scottish Government is credited to the general fund. Funding received from any source for the acquisition of specific property, plant and equipment is credited to the government grant reserve and released to the statement of comprehensive net expenditure over the life of the property, plant and equipment.

### **1.6 Property, plant and equipment (PPE)**

Property, plant and equipment is capitalised at the cost of acquisition and installation.

The Government Financial Reporting Manual provides for entities to elect to adopt a depreciated historical cost basis as a proxy for fair value for assets that have short useful lives or low values (or both). For depreciated historical cost to be considered as a proxy for fair value, the useful life must be a realistic reflection of the life of the asset and the depreciation method used must provide a realistic reflection of the consumption of that asset class. Given that property, plant and equipment held by the Scottish Legal Aid Fund is of low value and has a short useful economic life, there is no revaluation of property, plant and equipment.

The threshold for capitalisation of property, plant and equipment is £5,000; however, individual items of property, plant and equipment whose cost falls below the threshold but are of a similar nature are grouped and capitalised, where the value of the group exceeds the capitalisation threshold.

Subsequent costs are included in the carrying amount of the item of property, plant and equipment or recognised as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to the Scottish Legal Aid Fund and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the operation cost statement during the financial year to which they are incurred.

### **1.7 Depreciation**

Depreciation is provided on all property, plant and equipment on a straight line basis, at rates calculated to write-off the re-valued cost, less estimated residual value, of each asset over its expected useful life as follows:

- office equipment - 5 years
- personal computer hardware and integral software - 3 years
- other computer hardware - 5 years

Property, plant and equipment in the course of construction are not depreciated until the asset is brought into use.

### **1.8 Intangible assets**

Future economic benefit has been used as the criteria in assessing whether an intangible asset meets the definition and recognition criteria of International Accounting Standard 38. The standard defines future economic benefit as “revenue from the sale of products or services, cost savings or other benefits resulting from the use of the asset by the entity”.

Given the short useful lives and low values of Intangible Assets, the Scottish Legal Aid Fund has elected to adopt a depreciated historical cost basis as a proxy for fair value for intangible assets.

When capitalising internally generated intangible assets, such as in-house developed software, directly attributable costs, including staff costs and staff-related costs, are capitalised. On first time-adoption there has been no retrospective capitalisation of internally generated assets because of the inability to apportion historic cost information to specific intangible assets.

Intangible assets are amortised over the shorter term of the length of life of licence and its useful economic life. Intangible assets in the course of construction are not amortised until the asset is brought into use.

### **1.9 Operating leases**

Rentals applicable to operating leases are charged to the statement of comprehensive net expenditure on a straight-line basis over the period of the lease.

**1.10 Accruals and prepayments**

The Scottish Legal Aid Fund adjusts cash spend using accruals and prepayments to match expenditure to the period it was actually incurred. Only invoices over £500 are accrued or prepaid.

**1.11 Provisions for liabilities and charges**

The liability to pay accounts resulting from work performed up to and including 31 March is calculated based on the number of outstanding legal aid certificates and estimates of cost and time since the certificate was issued. The amount of the provision falling due within twelve months is shown within current liabilities; the amount of the provision falling due in over twelve months is shown in non-current liabilities.

**1.12 Short term employee benefits**

Short term employee benefits (such as accrued holiday pay) are valued and, if material, included in current liabilities.

**1.13 Pension costs (Public Defence Solicitors' Office and Civil Legal Assistance Office staff)**

The Legal Aid (Scotland) Pension Scheme 1988 is an unfunded pension scheme providing benefits based on final pensionable pay. The liabilities of the scheme are reported separately from those of the Board. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The amounts charged to the statement of comprehensive net expenditure represent both the service cost, i.e. the cost of the additional benefits earned as a result of employees' service in the current year; and the finance charge for the year arising from the interest on the scheme liabilities, in line with the requirements of International Accounting Standard 19 "*Employee benefits*".

**1.14 VAT**

The Board is not eligible to register for VAT and all costs are shown inclusive of irrecoverable VAT.

**1.15 Losses and special payments**

Operating expenditure includes certain losses which would have been made good through insurance cover had the Scottish legal Aid Fund not been bearing its known risks. Losses and special payments are disclosed separately in a note to the accounts (note 18).

**1.16 Related party disclosures**

Related party transactions are identified, considered and disclosed in line with the requirements of International Accounting Standard 24 "*Related party disclosures*".

**1.17 Financial instruments**

The classification of financial assets is determined on initial recognition and comprises only receivables with fixed or determinate payments. Financial assets include trade and other receivables and cash at bank in the statement of financial position. Receivables are recognised at fair value less any provision for non-recovery, which is charged to the statement of comprehensive net expenditure. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or been substantially transferred from the Fund.

Financial liabilities are classified at the point of initial recognition and comprise trade and other payables. Financial liabilities are valued at fair value and derecognised when they have been extinguished i.e. discharged, cancelled or expired.

**1.18 Changes in estimation techniques**

There have been no material changes in estimation techniques which were introduced in 2010-2011.

**Scottish Legal Aid Fund**  
**Notes to the accounts for the year ended 31 March 2011**

**2 Segmental analysis**

	Civil legal assistance £000	Criminal legal assistance £000	Children's legal assistance £000	Total £000
<b>Legal aid</b>				
Solicitors' fees	27,866	66,048	3,427	97,341
Advocates' fees	6,255	10,674	939	17,868
Solicitor advocates' fees	86	3,272	-	3,358
Outlays	9,840	5,555	399	15,794
Expenses paid to successful unassisted persons	44	-	-	44
	<u>44,091</u>	<u>85,549</u>	<u>4,765</u>	<u>134,405</u>
<b>Advice &amp; Assistance and ABWOR</b>				
Solicitors' charges	17,889	20,876	438	39,203
Outlays	3,694	433	13	4,140
	<u>21,583</u>	<u>21,309</u>	<u>451</u>	<u>43,343</u>
<b>Civil Legal Assistance Office/Public Defence Solicitors' Office</b>				
Outlays	76	149	-	225
Salaries and wages	715	943	-	1,658
Social security costs	55	79	-	134
Pension scheme service costs	116	132	-	248
Accommodation	83	51	-	134
Audit fee	2	2	-	4
Rentals under operating leases	67	85	-	152
Depreciation and amortisation	2	5	-	7
Other operating costs	107	195	-	302
	<u>1,223</u>	<u>1,641</u>	<u>-</u>	<u>2,864</u>
<b>In court advisors</b>	457	-	-	457
<b>Grant funding of economic downturn advice</b>	1,322	-	-	1,322
<b>Total expenditure</b>	<u>68,676</u>	<u>108,499</u>	<u>5,216</u>	<u>182,391</u>
Operating income	(13,510)	-	-	(13,510)
<b>Net operating costs 2010-11</b>	<u>55,166</u>	<u>108,499</u>	<u>5,216</u>	<u>168,881</u>
Net operating costs 2009-10	43,489	98,382	4,653	146,524

Reconciliation of the total segment measures to respective items included in the financial statement as follows

	£000
Segmental net operating costs	168,881
Miscellaneous legal aid expenditure	44
Bad debt (including impairment charges)	1,517
Net operating costs before interest per statement of comprehensive net expenditure	<u>170,442</u>

3 Civil legal assistance expenditure	2010-11 £000	2009-10 £000
<b>Civil legal aid</b>		
Solicitors' fees	27,866	17,553
Advocates' fees	6,255	5,955
Solicitor advocates' fees	86	63
Outlays	9,840	10,538
	44,047	34,109
Expenses paid to successful unassisted persons	44	157
	44,091	34,266
<b>Civil advice &amp; assistance and ABWOR</b>		
Solicitors' fees	17,889	18,419
Outlays	3,694	3,478
	21,583	21,897
<b>Civil Legal Assistance Office</b>		
Civil defence costs - outlays	76	85
Salaries and wages	715	620
Social security costs	55	45
Pension scheme service costs	116	28
Accommodation	83	78
Audit fee	2	1
Rentals under operating leases	67	33
Depreciation and amortisation (see note 10 & 11)	2	2
Other operating costs	107	148
	1,223	1,040
<b>In court advisors</b>	457	444
<b>Grant funding of economic downturn advice</b>	1,322	467
	68,676	58,114
<b>Gross civil legal assistance expenditure</b>	68,676	58,114
Less operating income (see note 4)	(13,510)	(14,625)
	55,166	43,489

These figures include:

- estimates of the value of work done for which payment is outstanding at 31 March 2011;
- estimates for work done as a matter of special urgency. Some of this work will not lead to a grant of full legal aid and may be paid under determination by the Scottish Ministers under section 4(2)(c) of the Legal Aid (Scotland) Act 1986. In 2010-2011, the expenditure under this scheme was £1,063,000 (2009-2010: £824,000); and
- payments to account made to solicitors and advocates under regulation 11 of the Civil Legal Aid (Scotland) (Fees) Regulations 1989. In 2010-2011 the expenditure under this scheme was £4,396,000 (2009-2010: £2,892,000).

4 Civil legal assistance income	2010-11 £000	2009-10 £000
Contributions by assisted persons <sup>1</sup>	3,542	4,664
Expenses recovered <sup>2</sup>	8,509	8,601
Amounts recovered out of property recovered or preserved by assisted persons <sup>3</sup>	179	328
Amounts recovered from damages	1,280	1,032
<b>Total</b>	13,510	14,625

<sup>1</sup> Contributions by assisted persons is shown net of any refunds. Amongst the reasons refunds may arise are:

- the financial circumstances of the assisted person having changed;

**Scottish Legal Aid Fund**  
**Notes to the accounts for the year ended 31 March 2011**

- the total cost of the case being less than the contribution; or
- the cost of a case having been fully recovered from a third party.

The net amounts refunded during 2010-2011 were £219,000 (2009-2010: £214,000).

<sup>2</sup> Expenses recovered are shown net of any adjustments, which may arise because the legal aid account has been taxed (re-assessed) by the Auditor of Court. Expenses refunded during 2010-2011 were £0 (2009-2010: £3,000). These are incorporated in the operating income table above.

<sup>3</sup> Included in the amounts recovered out of property recovered or preserved by assisted persons are sums relating to assets over which the Board has taken a standard security. Under certain circumstances, the Board will securitise assets such as property until the debt is repaid. Any outstanding sum will attract interest at 8% a year, unless the rate is adjusted by an Act of Sederunt, until the balance is settled. The total value of securitised assets for 2011, including accrued interest, is £336,000 (2010: £249,000).

<b>5 Criminal legal assistance expenditure</b>	<b>2010-11</b>	<b>2009-10</b>
	<b>£000</b>	<b>£000</b>
<b>Criminal legal aid</b>		
Solicitors' fees	65,857	57,053
Advocates' fees	10,659	10,096
Solicitor advocates' fees	3,262	2,674
Outlays	5,551	5,335
	<u>85,329</u>	<u>75,158</u>
<b>Criminal advice &amp; assistance and ABWOR</b>		
Solicitors' fees	20,876	21,011
Advocates' fees	-	7
Solicitor advocates' fees	-	1
Outlays	433	410
	<u>21,309</u>	<u>21,429</u>
<b>Contempt of court</b>		
Solicitors' fees	191	132
Advocates' fees	15	10
Solicitor advocates' fees	10	13
Outlays	4	4
	<u>220</u>	<u>159</u>
<b>Public Defence Solicitors' Office</b>		
Criminal defence costs - outlays	149	182
Salaries and wages	943	899
Social security costs	79	72
Pension scheme service costs	132	63
Accommodation	51	103
Audit fee	2	2
Rentals under operating leases	85	74
Depreciation and amortisation (see notes 10 and 11)	5	8
Other operating costs	195	233
	<u>1,641</u>	<u>1,636</u>
<b>Total criminal legal assistance expenditure</b>	<u>108,499</u>	<u>98,382</u>

These figures include:

- estimates of the value of work done for which payment is outstanding at 31 March 2011;
- estimates for work done as a matter of special urgency. Some of this work will not lead to a grant of full legal aid and may be paid under determination by the Scottish Ministers under section 4(2)(c) of the Legal Aid (Scotland) Act 1986. In 2010-2011, the expenditure under this scheme was £275,000 (2009-2010: £103,000).

<b>6 Legal aid for children</b>	<b>2010-11 £000</b>	<b>2009-10 £000</b>
<b>Children's legal aid</b>		
Solicitors' fees	3,427	2,942
Advocates' fees	939	969
Outlays	399	321
	<b>4,765</b>	<b>4,232</b>
<b>Children's advice &amp; assistance</b>		
Solicitors' fees	438	411
Advocates' fees	-	1
Outlays	13	9
	<b>451</b>	<b>421</b>
<b>Total children's legal assistance expenditure</b>	<b>5,216</b>	<b>4,653</b>

These figures include estimates of the value of work done for which payment is outstanding at 31 March 2011.

<b>7 Public Defence Solicitors' Office staff</b>	<b>2010-11 £000</b>	<b>2009-10 £000</b>
<b>Staff costs</b>		
Staff salaries and wages	924	880
Social security costs	79	72
Agency/temporary/contract	19	19
Pension scheme service and other costs	132	63
	<b>1,154</b>	<b>1,034</b>
<b>Staff numbers</b>		
Operations and legal services	17	16
Administration and support functions	7	9
Agency/temporary/contract	1	-
	<b>25</b>	<b>25</b>

Public Defence Solicitors' Office pensions and other benefits are payable out of the Scottish Legal Aid Fund account.

<b>8 Civil Legal Assistance Office staff</b>	<b>2010-11 £000</b>	<b>2009-10 £000</b>
<b>Staff costs</b>		
Staff salaries and wages	705	587
Social security costs	55	45
Agency/temporary/contract	10	33
Pension scheme service costs	116	28
	<b>886</b>	<b>693</b>
<b>Staff numbers</b>		
Operations and legal services	13	12
Administration and support functions	10	7
	<b>23</b>	<b>19</b>

**Scottish Legal Aid Fund**  
**Notes to the accounts for the year ended 31 March 2011**

Civil Legal Assistance Office pensions and other benefits are payable out of the Scottish Legal Aid Fund account.

<b>9 Bad debt (including impairment charges)</b>	<b>2010-11</b>	<b>2009-10</b>
	<b>£000</b>	<b>£000</b>
Irrecoverable contributions from assisted persons	1,011	53
Irrecoverable expenses	231	618
Irrecoverable sums from property recovered or preserved by assisted persons	<u>275</u>	<u>240</u>
	<b><u>1,517</u></b>	<b><u>911</u></b>

The sums written off during the year were £784,000 (2009-2010: £2,069,000).

**10 Property, plant and equipment**

	Office Equipment £000	PC/ computer hardware £000	Total £000
<b>Cost or valuation</b>			
Balance at 1 April 2010	12	104	116
<b>As at 31 March 2011</b>	<b><u>12</u></b>	<b><u>104</u></b>	<b><u>116</u></b>
<b>Depreciation</b>			
Balance at 1 April 2010	7	98	105
Provided during year	2	3	5
<b>As at 31 March 2011</b>	<b><u>9</u></b>	<b><u>101</u></b>	<b><u>110</u></b>
<b>Net book value at 31 March 2011</b>	<b><u>3</u></b>	<b><u>3</u></b>	<b><u>6</u></b>
Net book value at 1 April 2010	5	6	11

These assets relate to the operation of the Public Defence Solicitors' Office and Civil Legal Assistance Office.

**11 Intangible assets**

	Software £000
<b>Cost or valuation</b>	
Balance at 1 April 2010	62
Additions	<u>23</u>
<b>As at 31 March 2011</b>	<b><u>85</u></b>
<b>Amortisation</b>	
Balance at 1 April 2010	62
Provided during year	<u>2</u>
<b>As at 31 March 2011</b>	<b><u>64</u></b>
<b>Net book value at 31 March 2011</b>	<b><u>21</u></b>
Net book value at 1 April 2010	<u>-</u>

These assets relate to the operation of the Public Defence Solicitors' Office.

12 Trade and other receivables	2011 £000	2010 £000
<b>Bodies external to Government</b>		
Contributions due from assisted persons	9,165	8,642
Expenses to be recovered	1,810	1,915
Amounts due out of property recovered or preserved by assisted persons	2,689	2,789
Prepayments	271	310
	<b>13,935</b>	<b>13,656</b>

Amounts falling due in less than one year included above are:

<b>Bodies external to Government</b>		
Contributions due from assisted persons	3,850	3,630
Expenses to be recovered	253	268
Amounts due out of property recovered or preserved by assisted persons	588	634
Prepayments	271	310
	<b>4,962</b>	<b>4,842</b>

Amounts falling due after more than one year included above are:

<b>Bodies external to Government</b>		
Contributions due from assisted persons	5,315	5,012
Expenses to be recovered	1,557	1,647
Amounts due out of property recovered or preserved by assisted persons	2,101	2,155
	<b>8,973</b>	<b>8,814</b>

The majority of debt and impairment is in respect of debts greater than six months old.

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2011 £000	2010 £000
Balance as at 1 April	2,217	3,375
Increase in provision	1,517	911
Provision utilised in the year	(784)	(2,069)
<b>As at 31 March</b>	<b>2,950</b>	<b>2,217</b>

13 Cash and cash equivalents	2011 £000	2010 £000
Cash at bank and in hand	493	303
Principal sums* (note 14)	3,866	3,884
Funds held under arrestment pending resolution (note 14)	125	120
	<b>4,484</b>	<b>4,307</b>

\*Principal sums consist of damages and other money recovered on behalf of assisted persons. They are held in an interest bearing account until all the financial transactions for a case are concluded. Once the net liability to the Legal Aid Fund can be settled, the remaining balance due will be transferred to the assisted person. The movement in the account during the year was as follows:

**Scottish Legal Aid Fund**  
**Notes to the accounts for the year ended 31 March 2011**

	2011 £000	2010 £000
<b>Balance as at 1 April</b>	<u>3,884</u>	<u>4,733</u>
Received during the year	7681	4,630
Interest received during year	11	10
	<u>7,692</u>	<u>4,640</u>
Less:		
Sums repaid to assisted persons	6,373	4,408
Interest paid to assisted persons	57	49
Amounts recovered from damages received	1,280	1,032
	<u>7,710</u>	<u>5,489</u>
<b>Balance as at 31 March</b>	<u>3,866</u>	<u>3,884</u>
<b>14 Trade and other payables</b>	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
<b>Bodies external to Government</b>		
Accruals	75	100
Amounts due to solicitors and advocates	4,144	5,852
Principal sums (note 13)	3,866	3,884
Arrestments (note 13)	125	120
	<u>8,210</u>	<u>9,956</u>
<b>15 Financial instruments</b>	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
<b>Financial assets</b>		
Trade and other receivables (see note 12)	13,664	13,346
Cash (see note 13)	493	303
<b>Financial liabilities</b>		
Other - trade and other payables (see note 14)	(4,144)	(5,852)
<p>The Fund is exposed to credit, liquidity and market risk. Management believes that liquidity and market risks are low. The Fund has no interest bearing assets or liabilities, substantially eliminating the impact of changes in interest rates, and is not exposed to foreign exchange rates. Trade and other receivables are primarily due from individuals, which exposes the Fund to credit risk. Credit risk is the financial loss to the Fund if an individual fails to repay their contribution. The Fund operates a debt management process, including monitoring and escalation procedures to recover monies outstanding. Provision is made for non-recovery based on the age of debts and experience of collecting overdue debts. The maximum exposure to credit risk at 31 March 2011 was £13,664,000 (31 March 2010: £13,346,000).</p>		
<b>16 Provisions for liabilities and charges</b>	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
<b>Provision for amounts outstanding on granted legal aid cases</b>		
As at 1 April	64,796	67,250
Additions and increase to provision	49,096	37,814
Amounts used in the period	(32,748)	(34,825)
Unused amounts reversed in the period	(5,564)	(5,443)
	<u>75,580</u>	<u>64,796</u>
<b>As at 31 March</b>		

Split between:

Current liabilities	<b>52,553</b>	45,707
Non Current liabilities	<b>23,027</b>	19,089

The Board estimates the value of unbilled live cases each year to arrive at the amounts disclosed within the accounts as a provision. The amount is an estimate of the expenditure required to settle any obligation at the end of the reporting period following the requirements of International Accounting Standard 37 "*Provisions, contingent liabilities and contingent assets*". In estimating the provision, the Board has adopted prudent measurement techniques based on the latest data available. No income is anticipated for cases that may successfully recover costs.

## 17 Pension arrangements

The Board operates a contributory defined benefit (final salary) pension scheme.

The Legal Aid (Scotland) Pension Scheme 1988 sets out the conditions for entitlement and determines the rate at which benefits are payable. The scheme is set up under paragraph 8(3) of Schedule 1 to the Legal Aid (Scotland) Act 1986 which gives the Board power to make rules to provide pensions, allowances or gratuities for its employees. The scheme is administered on behalf of the Board by the Scottish Public Pensions Agency, an Executive Agency of Scottish Ministers.

Although the Board operates a single scheme for all staff, the income, costs and liabilities are apportioned between staff funded by the Scottish Legal Aid Fund, the Public Defence Solicitors' Office and Civil Legal Assistance Office staff; and staff funded from the Scottish Legal Aid Board's Grant-in-Aid.

There being no assets held, the scheme is unfunded. The pensions and other benefits are met as they fall due. Scheme members pay contributions at a rate of 6% of pensionable remuneration. These contributions are used to offset the expenditure. Contributions from Public Defence Solicitors' Office and Civil Legal Assistance Office staff were £83,000 (2009-2010 £75,000).

A full actuarial valuation of the scheme was carried out as at 31 March 2011 by Buck Consultants. The major assumptions used by Buck Consultants were:

	31 March 2011	31 March 2010
Discount rate per annum	<b>5.60%</b>	4.60%
Revaluation of deferred pensions	<b>2.65%</b>	2.75%
Increases to pensions in payment	<b>2.65%</b>	2.75%
Salary increases	<b>4.90%</b>	3.00%
Inflation	<b>2.65%</b>	2.75%

The measure of inflation used in the Scheme has changed from the Retail Prices Index ('RPI') to the Consumer Prices Index ('CPI').

Mortality assumptions are determined based on standard mortality tables. The assumptions are based on the Continuous Mortality Investigation Bureau's table S1PXA with CMI\_2009 [1.0%] improvements, and imply the following life expectancy:

	Life expectancy in years
Male - aged 60	<b>86.5</b>
Female - aged 60	<b>88.7</b>
Male - aged 40	<b>88.1</b>
Female - aged 40	<b>90.3</b>

**Scottish Legal Aid Fund**  
**Notes to the accounts for the year ended 31 March 2011**

<b>Analysis of the amount charged to operating costs</b>	<b>2010-11</b>	<b>2009-10</b>
	<b>£000</b>	<b>£000</b>
Current service cost (see notes 7 and 8)	248	91
Finance charges on pension scheme liabilities	123	83
	<u>371</u>	<u>174</u>
<b>Reconciliation of the liability in the scheme over the year:</b>	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Scheme liability at the beginning of the year	2,357	1,205
<b>Movement in year</b>		
Current service cost	248	91
Benefits paid	-	(2)
Finance charge	123	83
Changes in financial assumptions	(197)	775
Actuarial loss	259	205
	<u>2,790</u>	<u>2,357</u>
<b>Liability in scheme at end of the year</b>		

Amounts for the current and previous four years are as follows:

	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Defined benefit obligation	<u>2,790</u>	<u>2,357</u>	<u>1,205</u>	<u>905</u>	<u>567</u>
Experience adjustments on plan liabilities	<u>(259)</u>	<u>(205)</u>	<u>(501)</u>	<u>(226)</u>	<u>567</u>

## 18 Losses and special payments

	<b>2010-11</b>		<b>2009-10</b>	
	<b>No of</b>	<b>£000</b>	<b>No of</b>	<b>£000</b>
	<b>cases</b>		<b>cases</b>	
Write-off of bad debt	912	784	3,751	2,069
Special payments*	6	1	43	6
	<u>918</u>	<u>785</u>	<u>3,794</u>	<u>2,075</u>

\* There are cases where, in good faith, a solicitor or counsel provides advice for which the Board cannot pay under the letter of the Act or Regulations. There are also cases where an error is made by the Board. In such cases, the Board may make an ex-gratia payment, without prejudice, of compensation up to an agreed limit.

## 19 Related party disclosures

The Scottish Legal Aid Board is a Non Departmental Public Body funded by Grant-in-Aid from the Scottish Government. During the year, the Board had a number of other transactions with the Scottish Courts Service.

During the year, the Board entered into transactions of a value greater than £1,000 with the following related parties.

	<b>2010-11</b>	<b>2009-10</b>
	<b>£000</b>	<b>£000</b>
Joseph Hughes	95	193
Paul McBride QC	26	79

Alastair Kinroy QC	26	-
Denise Loney	14	-
Graham Bell QC (Board member until 31 March 2010)	-	87
David Nicol (Board member until 31 March 2010)	-	12
Denis C Loney		1

These related parties are Board members and their spouses or relatives who transacted with the Board at any time during the year. They are active legal aid practitioners and all the transactions arise from providing legal aid to assisted persons in the normal course of their profession, via their firms. The amounts detailed include outlays and VAT but do not include amounts paid for work carried out, on behalf of other firms, as an Edinburgh agent.

## 20 Capital commitments

No capital commitments existed at the end of reporting period.

## 21 Operating leases

	2011		2010	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Total commitments, at 31 March, under operating leases are as follows:				
Leases expiring:				
In one year or less	10	-	4	-
between one and five years	258	40	187	-
in five years or more	228	-	373	-
	<b>496</b>	<b>40</b>	<b>564</b>	<b>-</b>

## 22 Events after the end of the reporting period

No events have occurred since the end of the reporting period and the time these accounts were signed that would materially affect the information provided.

**Scottish Legal Aid Board**  
**Statement of comprehensive net expenditure for the year ended 31 March 2011**

	Notes	2010-11 £000	2009-10 £000
<b>Expenditure</b>			
Staff costs	25	10,232	9,477
Depreciation and amortisation	29 & 30	178	228
Loss on disposal of property, plant & equipment	29	-	6
Other administrative expenses	26	<u>3,319</u>	<u>3,608</u>
<b>Operating costs</b>		<b>13,729</b>	13,319
<b>Income</b>			
Income from shared services	27	<u>(289)</u>	<u>(249)</u>
<b>Net operating costs before interest</b>		<b>13,440</b>	13,070
Pension scheme finance costs	34	2,162	1,929
Interest receivable	28	<u>(54)</u>	<u>-</u>
<b>Net operating costs</b>		<b><u>15,548</u></b>	<b><u>14,999</u></b>

All income and expenditure is derived from continuing activities.

**Scottish Legal Aid Board**  
**Statement of Financial Position as at 31 March 2011**

47

	Notes	2011 £000	2010 £000
<b>Non-current assets</b>			
Property, plant and equipment	29	251	263
Intangible assets	30	441	179
<b>Total non-current assets</b>		<u>692</u>	<u>442</u>
<b>Current assets</b>			
Trade and other receivables	31	808	757
Cash and cash equivalents		220	250
<b>Total current assets</b>		<u>1,028</u>	<u>1,007</u>
<b>Total assets</b>		<u>1,720</u>	<u>1,449</u>
<b>Current liabilities</b>			
Trade and other payables	32	(246)	(263)
<b>Total current liabilities</b>		<u>(246)</u>	<u>(263)</u>
<b>Non-current assets plus net current assets</b>		<u>1,474</u>	<u>1,186</u>
<b>Non-current liabilities</b>			
Pension scheme liability	34	(42,134)	(45,731)
<b>Total non-current liabilities</b>		<u>(42,134)</u>	<u>(45,731)</u>
<b>Assets less liabilities</b>		<u>(40,660)</u>	<u>(44,545)</u>
<b>Taxpayers' equity</b>			
General fund		<u>(40,660)</u>	<u>(44,545)</u>
<b>Total taxpayers' equity</b>		<u>(40,660)</u>	<u>(44,545)</u>



**Lindsay Montgomery CBE**  
**Chief Executive and Accountable Officer**  
**27 July 2011**

The notes on pages 50 to 58 form part of these accounts and should be read with the statements above.

**Scottish Legal Aid Board**  
**Statement of Cash Flows for the year ended 31 March 2011**

	Notes	2010-11 £000	2009-10 £000
<b>Cash flows from operating activities</b>			
Net operating cost before Scottish Government funding		(15,548)	(14,999)
<b>Adjustments for non-cash items</b>			
Depreciation on property, plant and equipment and amortisation on intangible assets	29 & 30	178	228
Loss on disposal of property, plant and equipment	29	-	6
<b>Movements in working capital</b>			
Increase in trade and other receivables	31	(51)	(139)
Decrease in trade and other payables	32	(17)	(74)
<b>Movements in provisions</b>			
Pension scheme service and finance costs	34	3,369	2,569
Payments in respect of pension scheme	34	(673)	(775)
<b>Net cash outflow from operating activities</b>		<u>(12,742)</u>	<u>(13,184)</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	29	(102)	(66)
Purchase of intangible assets	30	(326)	(128)
<b>Net cash outflow from investing activities</b>		<u>(428)</u>	<u>(194)</u>
<b>Cash flows from financing activities</b>			
Scottish Government funding		<u>13,140</u>	13,592
<b>Net cash inflow from financing activities</b>		<u>13,140</u>	<u>13,592</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		(30)	214
<b>Cash and cash equivalents as at 1 April</b>		<u>250</u>	36
<b>Cash and cash equivalents as at 31 March</b>		<u><u>220</u></u>	<u><u>250</u></u>

**Scottish Legal Aid Board**  
**Statement of cash flows for the year ended 31 March 2011**

49

	Notes	2011 £000	2010 £000
<b>Balance at 1 April</b>		<b>(44,545)</b>	<b>(30,514)</b>
<b>Changes in taxpayers' equity for 2010-11</b>			
Net cost of operations		(15,548)	(14,999)
Net movement on pension scheme	34	<u>6,293</u>	<u>(12,624)</u>
<b>Total recognised income and expense for 2010-11</b>		<b><u>(9,255)</u></b>	<b><u>(27,623)</u></b>
Funding from the Scottish Government		<u>13,140</u>	<u>13,592</u>
<b>Balance at 31 March</b>		<b><u><u>(40,660)</u></u></b>	<b><u><u>(44,545)</u></u></b>

## **23 Accounting policies**

### **23.1 Basis of accounting**

The accounts have been prepared in accordance with the accounting principles and disclosure requirements of the 2010-2011 *Government Financial Reporting Manual*. Without limiting the information given, the accounts follow generally accepted accounting practices as defined in International Financial Reporting Standards (IFRS) as adopted by the European Union and the Companies Act 2006 to the extent that it is meaningful and appropriate in the public sector context and in and in accordance with the Accounts Direction given by Scottish Ministers. The accounting policies selected have been applied consistently in dealing with items considered material in relation to the accounts.

As explained in note 34, pensions and other benefits are payable out of grant-in-aid and are met as they fall due. However, the accounts have been prepared in line with International Accounting Standard 19 “*Employee benefits*” and include an actuarial valuation of the pension scheme liability. As a result, the statement of financial position shows net liabilities of £41m (2010: £45m). This reflects the inclusion of liabilities falling due in future years which, to the extent that they are not to be met from the Board’s other sources of income, may only be met by future grants or grants-in-aid from the Scottish Government. This is because, under the normal conventions applying to Scottish Government control over income and expenditure, such grants may not be paid in advance of need. Grant-in-aid for 2011-2012, taking into account the amounts required to meet the Board’s liabilities falling during that year, has already been included in the Scottish Government’s estimates for that year, which have been approved by parliament, and there is no reason to believe that the Scottish Government’s full sponsorship and future parliamentary approval will not be forthcoming. Accordingly, it is considered appropriate to adopt the going concern basis for the preparation of these financial statements.

### **23.2 Accounting convention**

These accounts have been prepared under the historical cost convention modified to account, where material, for the revaluation of property, plant and equipment and intangible assets to fair value as determined by the relevant accounting standard. However, given the short useful economic lives and low values of property, plant and equipment and intangible assets, these assets are disclosed on a depreciated historical cost basis, which is used as a proxy for fair value.

### **23.3 Changes in accounting policy**

HM Treasury, under the Clear Line of Sight (Alignment Project) removed the cost of capital charge from budgets and accounts from 1st April 2010. The cost of capital charge is therefore no longer applicable. The removal of the cost of capital charge is a change in accounting policy under IAS 8. Applying paragraph 31 of IAS 1 and, noting that the removal of the cost of capital charge has no effect on the balance sheets, a specific disclosure is not required. The impact on the prior-year statement of comprehensive expenditure is to increase net operating costs by £1,314k to £14,999k.

### **23.4 Corresponding amounts**

Corresponding amounts are shown for the primary financial statements and for the notes to the accounts. Where corresponding amounts are not directly comparable with the amount shown in the current financial year, International Accounting Standard 1 “*Presentation of financial statements*” requires that they should be adjusted and the basis for adjustment disclosed in a note to the financial statements.

### **23.5 Funding**

Most of the expenditure of the Scottish Legal Aid Board is met from funds advanced by the Scottish Government within an approved allocation. Cash drawn down to fund expenditure within this approved allocation is credited to the general fund. All income that is not classed as funding is recognised in the period in which it is receivable. Funding for the acquisition of general property, plant and equipment received from the Scottish Government is credited to the general fund. Funding received from any source for the acquisition of specific property, plant and equipment is credited to the government grant reserve and released to the statement of comprehensive net expenditure over the life of the property, plant and equipment.

### **23.6 Property, plant and equipment (PPE)**

Property, plant and equipment is capitalised at the cost of acquisition and installation.

The Government Financial Reporting Manual provides for entities to elect to adopt a depreciated historical cost basis as a proxy for fair value for assets that have short useful lives or low values (or

both). For depreciated historical cost to be considered as a proxy for fair value, the useful life must be a realistic reflection of the life of the asset and the depreciation method used must provide a realistic reflection of the consumption of that asset class. Given that property, plant and equipment held by the Scottish Legal Aid Board is of low value and has a short useful economic life, there is no revaluation of property, plant and equipment.

The threshold for capitalisation of property, plant and equipment is £5,000; however, individual items of property, plant and equipment whose cost falls below the threshold but are of a similar nature are grouped and capitalised, where the value of the group exceeds the capitalisation threshold.

Subsequent costs are included in the carrying amount of the item of property, plant and equipment or recognised as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to the Scottish Legal Aid Board and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the operation cost statement during the financial year to which they are incurred.

### **23.7 Depreciation**

Depreciation is provided on all property, plant and equipment on a straight line basis, at rates calculated to write-off the re-valued cost, less estimated residual value, of each asset over its expected useful life as follows:

- office equipment - 5 years
- personal computer hardware and integral software - 3 years
- other computer hardware - 5 years

Property, plant and equipment in the course of construction are not depreciated until the asset is brought into use.

### **23.8 Intangible assets**

Future economic benefit has been used as the criteria in assessing whether an intangible asset meets the definition and recognition criteria of International Accounting Standard 38. The standard defines future economic benefit as “revenue from the sale of products or services, cost savings or other benefits resulting from the use of the asset by the entity”.

Given the short useful lives and low values of intangible assets, the Scottish Legal Aid Board has elected to adopt a depreciated historical cost basis as a proxy for fair value for intangible assets.

When capitalising internally generated intangible assets, such as in-house developed software, directly attributable costs, including staff costs and staff-related costs, are capitalised. On first time-adoption there has been no retrospective capitalisation of internally generated assets because of the inability to apportion historic cost information to specific intangible assets.

Intangible assets are amortised over the shorter term of the length of life of licence and its useful economic life. Intangible assets in the course of construction are not amortised until the asset is brought into use.

### **23.9 Operating leases**

Rentals applicable to operating leases are charged to the statement of comprehensive net expenditure on a straight-line basis over the period of the lease.

### **23.10 Accruals and prepayments**

The Scottish Legal Aid Board adjusts cash spend using accruals and prepayments to match expenditure to the period it was actually incurred. Only invoices over £500 are accrued or prepaid.

### **23.11 Short term employee benefits**

Short term employee benefits (such as accrued holiday pay) are valued and, if material, included in current liabilities.

### **23.12 Pension costs**

The Legal Aid (Scotland) Pension Scheme 1988 is an unfunded pension scheme providing benefits based on final pensionable pay. The liabilities of the scheme are reported separately from those of the Board. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The amounts charged to the statement of comprehensive net expenditure represent both the service cost, i.e. the cost of the additional benefits earned as a result of employees' service in the

current year; and the finance charge for the year arising from the interest on the scheme liabilities, in line with the requirements of International Accounting Standard 19 “Employee benefits”.

**23.13 VAT**

The Board is not eligible to register for VAT and all costs are shown inclusive of irrecoverable VAT.

**23.14 Losses and special payments**

Operating expenditure includes certain losses which would have been made good through insurance cover had the Scottish Legal Aid Board not been bearing its known risks. Losses and special payments are disclosed separately in a note to the accounts (note 35).

**23.15 Related party disclosures**

Related party transactions are identified, considered and disclosed in line with the requirements of International Accounting Standard 24 “Related party disclosures”.

**23.16 Financial instruments**

The classification of financial assets is determined on initial recognition and comprises only receivables with fixed or determinate payments. Financial assets include trade and other receivables and cash at bank in the statement of financial position. Receivables are recognised at fair value less any provision for non-recovery, which is charged to the statement of comprehensive net expenditure. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or been substantially transferred from the Board.

Financial liabilities are classified at the point of initial recognition and comprise trade and other payables. Financial liabilities are valued at fair value and derecognised when they have been extinguished i.e. discharged, cancelled or expired.

**23.17 Changes in estimation techniques**

There have been no material changes in estimation techniques which were introduced in 2010-2011.

## 24 Segmental analysis

These divisions are the basis on which the Scottish Legal Aid Board monitors its operations and upon which decisions are made by the Board.

	Audit, Compliance, Investigations & Independent checking £000	Legal Services & Applications £000	Policy £000	Corporate Services & Accounts £000	Secretariat* £000	Total £000
Staff costs	806	3,133	543	4,057	486	9,025
Operating costs	57	347	53	2,750	112	3,319
<b>Total expenditure</b>	<b>863</b>	<b>3,480</b>	<b>596</b>	<b>6,807</b>	<b>598</b>	<b>12,344</b>
Income	(13)	-	-	(276)	-	(289)
<b>Net operating costs 2010-11</b>	<b>850</b>	<b>3,480</b>	<b>596</b>	<b>6,531</b>	<b>598</b>	<b>12,055</b>
Net operating costs 2009-10	873	3,510	595	6,487	731	12,196

\* Secretariat includes the Chief Executives Office, Communications and Board costs.

Reconciliation of the total segment measures to respective items included in the financial statement as follows

	£000
Segmental net costs	12,055
Pension scheme service costs	1,207
Depreciation	178
<b>Net operating costs before interest per statement of comprehensive net expenditure</b>	<b>13,440</b>

## 25 Staff

<b>Staff costs</b>	<b>2010-11</b>	<b>2009-10</b>
	<b>£000</b>	<b>£000</b>
Board members' emoluments	123	126
Staff salaries	7,742	7,747
Social security costs	582	589
Pension scheme service costs	1,207	640
Agency/temporary/contract	578	375
	<b>10,232</b>	<b>9,477</b>
<b>Staff numbers</b>	<b>2010-11</b>	<b>2009-10</b>
	<b>Average</b>	<b>Average</b>
	<b>WTE</b>	<b>WTE</b>
Operations and legal services	176	181
Administration and support functions	105	116
Agency/temporary/contract	19	18
	<b>300</b>	<b>315</b>

**Scottish Legal Aid Board**  
Notes to the accounts for the year ended 31 March 2011

<b>26 Other administrative expenses</b>	<b>2010-11</b>	<b>2009-10</b>
	<b>£000</b>	<b>£000</b>
Accommodation	561	612
Audit fee	39	44
Staff related costs	113	166
Travel and subsistence	41	64
Postage, stationery and telephones	248	327
Office equipment and maintenance	819	739
External research	44	23
Civil peer review	93	170
Criminal peer review	46	6
Corporate publications, leaflets and forms	62	190
Rentals under operating leases	700	671
Other administrative costs	553	596
	<u>3,319</u>	<u>3,608</u>
<b>27 Income from shared services</b>	<b>2010-11</b>	<b>2009-10</b>
	<b>£000</b>	<b>£000</b>
Accommodation services provided to third parties	250	226
Income from shared services provided to third parties	39	23
	<u>289</u>	<u>249</u>

**28 Interest receivable**

The contract with the Royal Bank of Scotland prescribes quarterly payments of bank interest receivable. The balance of £54,000 (2009-2010: £53,000) as at 31 March 2011 (see note 32), which had been accumulating over a number of years, was held pending agreement on the treatment of this with the Scottish Government. Agreement has now been reached with the Scottish Government that allows interest earned by the Board on cash balances to be used to provide additional funding. As a result, the balance has now been treated as income in the statement of comprehensive net expenditure.

**29 Property, plant and equipment**

	Office equipment £000	PC/ computer hardware £000	Total £000
<b>Cost or valuation</b>			
Balance at 1 April 2010	342	1,188	1,530
Additions	48	54	102
Disposals	-	(72)	(72)
<b>As at 31 March 2011</b>	<u>390</u>	<u>1,170</u>	<u>1,560</u>
<b>Depreciation</b>			
Balance at 1 April 2010	263	1,004	1,267
Disposals	-	(72)	(72)
Provided during year	33	81	114
<b>As at 31 March 2011</b>	<u>296</u>	<u>1,013</u>	<u>1,309</u>
<b>Net book value at 31 March 2011</b>	<u>94</u>	<u>157</u>	<u>251</u>
Net book value at 1 April 2010	<u>79</u>	<u>184</u>	<u>263</u>

<b>30 Intangible assets</b>	Software £000
<b>Cost or valuation</b>	
Balance at 1 April 2010	685
Additions	326
Disposals	(8)
<b>As at 31 March 2011</b>	<b>1,003</b>
<b>Amortisation</b>	
Balance at 1 April 2010	506
Disposals	(8)
Provided during year	64
<b>As at 31 March 2011</b>	<b>562</b>
<b>Net book value at 31 March 2011</b>	<b>441</b>
Net book value at 1 April 2010	179

<b>31 Trade and other receivables</b>	2011 £000	2010 £000
<b>Bodies external to Government</b>		
Trade receivables	47	131
Prepayments	761	626
	<b>808</b>	<b>757</b>

Management have assessed that there is no impairment in relation to the trade and other receivables balance. At 31 March 2011 none of the debt was past its due date.

<b>32 Trade and other payables</b>	2011 £000	2010 £000
<b>Other Central Government Bodies</b>		
Interest received due to Scottish Government (see note 28)	-	53
<b>Bodies external to Government</b>		
Trade payables	2	5
Accruals	244	205
	<b>246</b>	<b>263</b>

<b>33 Financial instruments</b>	2011 £000	2010 £000
<b>Financial assets</b>		
Trade and other receivables (see note 31)	47	131
Cash	220	250
<b>Financial liabilities</b>		
Other - trade and other payables (see note 32)	(2)	(5)

The Board is exposed to credit, liquidity and market risk, but management believe that these risks are low. Trade and other receivables and trade and other payables are those arising during the Board's routine business. The Board has no interest bearing assets or liabilities, substantially eliminating the impact of changes in interest rates, and is not exposed to foreign exchange rates.

### 34 Pension arrangements

The Board operates a contributory defined benefit (final salary) pension scheme.

The Legal Aid (Scotland) Pension Scheme 1988 sets out the conditions for entitlement and determines the rate at which benefits are payable. The scheme is set up under paragraph 8(3) of Schedule 1 to the Legal Aid (Scotland) Act 1986 which gives the Board power to make rules to provide pensions, allowances or gratuities for its employees. The scheme is administered on behalf of the Board by the Scottish Public Pensions Agency, an Executive Agency of Scottish Ministers.

Although the Board operates a single scheme for all staff, the income, costs and liabilities are apportioned between staff funded by the Scottish Legal Aid Fund, presently Public Defence Solicitors' Office and Civil Legal Assistance Office staff, and staff funded from the Scottish Legal Aid Board's grant-in-aid. This disclosure, therefore, relates to staff other than Public Defence Solicitors' Office and Civil Legal Assistance Office staff.

There being no assets held, the scheme is unfunded. The pensions and other benefits are met as they fall due from grant-in-aid. Scheme members pay contributions of 6% of pensionable salaries amounting to £389,000 (2009-2010: £363,000). These contributions, along with any transfers from other schemes, are used to offset the Board's grant-in-aid expenditure up to a limit of £250,000. Any excess receipts are surrendered to the Scottish Government; and any excess expenditure on pensions, over and above that estimated for the year, is met by the Scottish Government.

A full actuarial valuation of the scheme was carried out as at 31 March 2011 by Buck Consultants. The major assumptions used by Buck Consultants were:

	31 March 2011	31 March 2010
Discount rate per annum	5.60%	4.60%
Revaluation of deferred pensions	2.65%	2.75%
Increases to pensions in payment	2.65%	2.75%
Salary increases	4.90%	3.00%
Inflation	2.65%	2.75%

The measure of inflation used in the Scheme has changed from the Retail Prices Index ('RPI') to the Consumer Prices Index ('CPI').

Mortality assumptions are determined based on standard mortality tables. The assumptions are based on the Continuous Mortality Investigation Bureau's table S1PXA with CMI\_2009 [1.0%] improvements, and imply the following life expectancy:

	Life expectancy in years
Male - aged 60	86.5
Female - aged 60	88.7
Male - aged 40	88.1
Female - aged 40	90.3

	2010-11	2009-10
	£000	£000
Current service cost (see note 25)	1,207	640
Finance charges on pension scheme liabilities	2,162	1,929
	<b>3,369</b>	<b>2,569</b>

<b>Reconciliation of the liability in the scheme over the year:</b>	<b>2011</b>	2010
	<b>£000</b>	£000
Scheme liability at the beginning of the year	45,731	31,313
<b>Movement in year</b>		
Current service cost	1,207	640
Benefits paid	(673)	(775)
Finance charge	2,162	1,929
Changes in financial assumptions	(5,836)	12,105
Actuarial (gain)/loss	(457)	519
<b>Liability in scheme at end of the year</b>	<b>42,134</b>	<b>45,731</b>

Amounts for the current and previous four years are as follows:

	2011	2010	2009	2008	2007
	£000	£000	£000	£000	£000
Defined benefit obligation	42,134	45,731	31,313	35,786	36,830
Experience adjustments on plan liabilities	457	(519)	(551)	(702)	(360)

**35 Losses and special payments**

	2010-11		2009-10	
	No of		No of	
	Cases	£000	Cases	£000
Losses	6	2	6	2
Special payments	2	-	3	-
	<u>8</u>	<u>2</u>	<u>9</u>	<u>2</u>

**36 Capital commitments**

	2011	2010
	£000	£000
In respect of contracts entered into at 31 March	-	-

**37 Operating leases**

	2011		2010	
	Land and		Land and	
	buildings	Other	buildings	Other
	£000	£000	£000	£000
Total commitments, at 31 March, under operating leases are as follows:				
Leases expiring:				
between one and five years	2,890	36	846	22
in five years or more	-	-	2,617	-
	<u>2,890</u>	<u>36</u>	<u>3,463</u>	<u>22</u>

The Board's offices at 39-44 Drumsheugh Gardens, Edinburgh are leased. The lease provides for the payment of a sum for dilapidation at the expiry of the leases in 2014 and 2015. Because the Board has a rolling planned programme of maintenance to avoid the need for extensive refurbishment at the expiry of the lease, the Board has not provided for dilapidations.

**38 Related party transactions**

The Scottish Legal Aid Board is a Non Departmental Public Body funded by Grant-in-Aid from the Scottish Government. During the year, the Board had a number of other transactions with government departments and other Non Departmental Public Bodies, including the Department of Work and Pensions, The Finger Print Inquiry, The Penrose Inquiry, Scottish Public Service Ombudsman, Architecture and Design Scotland, the Scottish Courts Service, the Judicial Appointments Board, the Office of the Chief Investigating Officer, the Scottish Parliamentary Standards Commissioner and the Scottish Legal Complaints Commission.

**39 Events after the reporting period**

No events have occurred since the end of the reporting period and the time these accounts were signed that would materially affect the information provided.



**THE SCOTTISH LEGAL AID BOARD**

**DIRECTION BY THE SCOTTISH MINISTERS**

1. The Scottish Ministers, in pursuance of Section 5(2) of the Legal Aid (Scotland) Act 1986, hereby give the following direction.
2. In accordance with Section 5(1) of the Legal Aid (Scotland) Act 1986, the Scottish Legal Aid Board has a duty to prepare a separate statement of accounts in respect of the Scottish Legal Aid Fund (the Fund) and the administration of the Fund (the Board). The statement of accounts, of both the Fund and the Board, for the financial year ended 31 March 2006, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
4. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 13 June 2002 is hereby revoked.

*Michelle H Brannan*

Signed by the authority of the Scottish Ministers

Dated 13 December 2005