



LEGAL SERVICES
BOARD

Legal Services Board

Annual Report and Accounts for
the Year Ended **31 March 2014**

Legal Services Board

Annual Report and Accounts for the Year Ended 31 March 2014

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Introduction from the Chairman



This is the sixth annual report of the Legal Services Board (LSB) and addresses the period April 2013 to March 2014.

The central role of the LSB is to drive improvements in regulation across the legal sector. It is about ensuring that the principles of proportionality, accountability, consistency, targeting and transparency are at the heart not simply of what we do, but of the activities of the bodies which we oversee. It is also about ensuring that the principles of the Legal Services Act 2007 (the Act) are put into practice.

The embedding of independent regulation in legal services in England and Wales is one of the developments I am most proud of in the six years I have been Chairman. I believe we now have more independent regulation. However, that should not be a signal to rest on our laurels. Constant vigilance is required to ensure that this fundamental principle

is not overturned. The LSB's investigation into the Bar Council's failure to comply with the internal governance rules (IGRs) in its dealings with the Bar Standards Board (BSB) demonstrated how important it is for the LSB to be able to challenge poor behaviours. The findings of this investigation, published in November 2013, were of real concern but it is to the Bar Council's credit that it has both accepted the findings and made substantial early progress in implementing the outcomes required to remedy them, offering robust safeguards to prevent similar failings in future.

We have also changed the IGRs so that new appointments to the role of chair in most of the regulatory bodies must be lay persons. This is another significant step. We have consulted on the additional proposal for the regulatory bodies themselves, rather than the professional bodies, to take more responsibility for the appointments and reappointments process for board members and their chairs. These are changes which provide workable and proportionate means of increasing independence in legal services.

During the year, the Ministry of Justice (MoJ) announced a call for evidence on regulation in the legal services sector. In a constructive and forward-looking response, the LSB produced a number of fundamental proposals for change with its own comprehensive blueprint for reform. This initiative has started a debate which, nearly ten years after the Clementi review, I think is necessary. Although the Ministry's conclusion announced on 1 May 2014 did not presage immediate change before a general election, the issues we raised will not go away and I

know that the incoming Chair will continue to pursue the debate actively in the coming months.

I personally believe that the post-2007 regulatory regime can and should be reorganised and simplified to deliver the real potential of the Act. My Board and I have made a very clear statement on what we believe needs to be done. Our prescription does not turn the clock back. We believe that more not less change is needed in mechanisms for market entry, regulation needs to be further detached from the influence of the provider towards the consumer, and that simplification at every level can be delivered. This is not something which will happen overnight, but in order for it to happen at all, a debate needs to be held and Ministers and Parliament convinced.

We have responded to the Legal Education and Training Review (LETR), which delivered its final report in June 2013, by issuing statutory guidance in March 2014, intended to assist regulators as they proceed to implement the LETR. I stand by my oft stated view that a liberalised legal services market will function more effectively if there is a more flexible labour market and education and training has a huge role to play in delivering this. It is for this reason we took this step.

Our research team has continued their important work of building a baseline of legal research upon which changes in the legal services market can and will be measured. I would like to highlight three reports in particular.

- The research undertaken by the Norah Fry Research Centre on behalf of the LSB, the Legal Services Consumer Panel (the Panel) and the leading charity for people with learning disabilities, Mencap, (published in July 2013) into what happens when people with learning disabilities need advice about the law,

shows that a range of good practice exists, but that too often lawyers are uncertain how to communicate with people with learning disabilities. They also lack the knowledge of where to get specialist support. This research is among the most important and useful we have done because of the practical nature of its findings, and I hope it will both gain the audience it rightly deserves and also prove to be useful

- We also reported on the legal needs of small businesses. In May 2013, we commissioned a survey of 9,703 small business users, and the results were both surprising and alarming. It found that 38 percent of all small businesses had experienced a significant legal problem, but that only 12 percent of legal problems resulted in demand for advice from solicitors' firms, with 52 percent of respondents opting to handle their legal problems on their own. While 54 percent agreed that legal processes are essential to enable businesses to enforce their rights, only 13 percent of small businesses agreed that lawyers provide a cost effective means to resolve legal issues
- Finally, the report produced in December 2013 by Professor George Yarrow of the Regulatory Policy Institute on barriers to entry, exit and innovation, highlighted the importance of regulators focusing on value for money for consumers and ensuring that a proper focus on risk does not inadvertently lead to loss or delay in realising the benefits of non-traditional approaches to service delivery. There are challenges in his report for regulators and the LSB alike and the way forward has already been discussed by the Board.

In mid-December the LSB issued a recommendation to the Lord Chancellor that the Institute of Chartered Accountants in England and Wales (ICAEW) should become an approved regulator and licensing authority for probate activities (a reserved legal activity). The Lord Chancellor accepted this recommendation in March, meaning that ICAEW-regulated individuals will be able to provide a reserved legal service to consumers. This is important because it has the potential to increase choice and reduce costs, and should enable firms to offer a more integrated service to consumers who, in non-contentious cases, will be able to use a single adviser.

We also recommended, and had accepted, similar applications by the Chartered Institute of Legal Executives (CILEx) to add probate and reserved instrument activities to the list of reserved legal activities that it can authorise, and an application from the Intellectual Property Regulation Board (IPReg), on behalf of the Chartered Institute of Patent Attorneys (CIPA) and the Institute of Trade Mark Attorneys (ITMA), for designation as licensing authorities.

In mid-January the High Court delivered its judgement in favour of the LSB in the judicial review against the Quality Assurance Scheme for Advocates (QASA). This scheme is extremely important. I believe that those who need access to justice have a right to expect that regulators and advocates alike, acting in the public interest, will constantly seek to assess and improve the quality of their practice. That is good for them as professionals, but, above all, good for our fellow citizens in improving the likelihood of courts reaching the right decision in difficult cases. The Court's decision is currently the subject of an appeal to the Court of Appeal.

The Government's decision not to accept our recommendation that will-writing activities should be made subject to regulation was disappointing. We had found significant evidence to suggest that the will-writing market is working contrary to the interests of consumers. The onus is now on both regulated and unregulated providers of will-writing services to improve standards and thereby earn consumer and public confidence.

These new developments have run alongside significant and important "business as usual" activity. For example, we have successfully run recruitment and appointment processes to replace two members and the Chair of the Office for Legal Complaints (OLC) and six of the eight members of the Panel. We have approved 18 applications for changes to regulatory arrangements, all within our published targets. And we have moved seamlessly to smaller and more cost-effective premises.

This is the last annual report to which I will contribute, as my second term of office expired at the end of April. I am proud of what has been achieved in the six years I have chaired this organisation. I think we have achieved far more than anyone expected we would given the labyrinthine nature of the 2007 Act.

I should like to thank a number of people. I am grateful to everyone who has worked with me in the last six years. I would, however like to focus in particular on the last 12 month period and to thank Barbara Saunders OBE and Andrew Whittaker who stepped down from the Board this year at the end of their terms of appointment. They have been with the LSB since the very start. Their support, effort and commitment over the last four and a half years has been instrumental in helping us achieve what we set out to do.

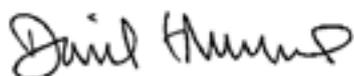
I would also like to thank Stephen Green who has resigned from the Board to assume the position of Chair of the OLC. He will build on the significant achievements of Elizabeth France, who as the inaugural chair of the OLC, established a well-respected organisation, now poised to take on important new responsibilities.

I would also like to extend a very warm welcome to my successor Sir Michael Pitt, who took over on 1 May. He joins at an exciting, interesting and challenging time for legal services in England and Wales, and leads an organisation committed to competition, market liberalisation and putting the consumer interest at the heart of regulation. Two new Board members - Marina Gibbs and David Eveleigh have also joined on 10 April.

I should once again like to thank Elisabeth Davies and her team at the Panel. Their assistance has been invaluable.

My final thanks are to Chris Kenny and the staff team at the LSB. I have worked in many organisations and rate this group as highly as any. Six years of focus show what can be achieved through belief and organisation. We have had a lot thrown at us, but have not only survived, we have flourished. Many staff have worked diligently, and for long hours. The Board and the team share a commitment, but commitment needs the back up of good execution. I am proud to have worked as part of a team that has delivered so much.

I wish them and my direct successor well for the future.



David Edmonds

Chairman



Highlights of 2013/14

This report covers the period 1 April 2013 to 31 March 2014.

Notable highlights of the year include:

- Concluding our first statutory investigation: in November 2013, the Bar Council gave undertakings to improve systems to ensure that the regulatory independence of the BSB was not compromised and the BSB agreed to review the details of the cab rank rule in its code of practice in the light of the LSB findings
- Developing a radical 'Blueprint for regulatory reform' in response to the MoJ call for evidence on legal services regulation and starting to make progress on those of its recommendations which are wholly within our control
- Conducting ground-breaking research jointly with Mencap and the Panel into the legal needs of people with learning disabilities
- Receiving Lord Chancellor approval on recommendations that, once implemented, have the potential to stimulate significantly more competition in the legal services market namely:
 - o designating the ICAEW as an approved regulator and licensing authority for non-contentious probate activities
 - o designating the IPReg as a licensing authority for litigation
 - o designating ILEX Professional Standards Ltd (IPS) as an approved regulator for probate and reserved instrument activities
- Seeing a number of comparison sites sign up to Panel standards for comparison websites after co-operation between the Panel, Solicitors Regulation Authority (SRA) and Council for Licensed Conveyancers (CLC) - and urging regulators to make a step change in their willingness to share their data with such sites

- Conducting major research into the legal needs of small businesses showing how far the gap is between small businesses' legal needs and the services available from providers
- Pending a Court of Appeal decision, defending in the High Court successfully, a Criminal Bar Association backed judicial review of our decision to approved changes to regulators' arrangements regarding the introduction of the QASA
- Contributing to Sir Bill Jeffrey's review of Criminal Advocacy, highlighting changes within the market and further measures to improve its flexible operation
- Achieving material progress in the speed and flexibility of alternative business structures (ABS) authorisation through challenge to and engagement with the SRA
- Moving the LSB into smaller and more cost-effective premises at One Kemble Street
- Further embedding regulatory independence by mandating that regulatory boards must have lay chairs and consulting on further changes to appointment processes
- Providing direction on the future of legal education and training regulation by issuing statutory guidance for regulators
- Appointing Steve Green as the second Chair of the OLC to ensure a seamless transition from Elizabeth France as she completed her second term of office on 31 March 2014
- Explaining the UK experience of legal services reform to international visitors and audiences from the USA, China, Canada, Ireland and in Brussels.



About us

The Legal Services Act 2007 established the LSB and we took on the majority of our statutory powers and duties on 1 January 2010. We are an independent body, responsible for overseeing the regulation of legal services in England and Wales.

Our goal is to reform and modernise the legal services market-place in the interests of consumers, enhancing quality, ensuring value for money and improving access to justice across England and Wales.

We do this through our regulatory oversight of the ten approved regulators, who between them directly regulate approximately 163,000 lawyers operating throughout the jurisdiction.

We are independent of Government and of the legal profession.

Our regulated community

Details of the approved regulators, who they regulate, for which reserved legal activities and whether they are also licensing authorities are provided in Figure 1.

We also oversee the OLC and its administration of the Legal Ombudsman scheme. The scheme resolves complaints about lawyers. Our relationship with the OLC is guided by a memorandum of understanding. We approve the OLC's annual budget and are able to set or agree performance targets.

The Act also provides us with limited powers in relation to the Solicitors Disciplinary Tribunal (SDT) and requires the Tribunal to obtain the LSB's approval of its annual budget and for changes that it wishes to make to its rules.

Figure 1:

Approved regulator	Regulatory body	Reserved activities	Licensing authority	No. of authorised persons	No. of regulated entities
Law Society	Solicitors Regulation Authority	The exercise of a right of audience The conduct of litigation Reserved instrument activities Probate activities The administration of oaths	YES	134,447 At 01-Apr-13 (levy figures)	11,115 Aug-12 (SRA web report)
General Council of the Bar	Bar Standards Board	The exercise of a right of audience The conduct of litigation Reserved instrument activities Probate activities The administration of oaths	NO	15,355 At 01-Apr-13 (levy figures)	N/A
Faculty Office		Reserved instrument activities Probate activities The administration of oaths Notarial activities	NO	812 At 01-Apr-13 (levy figures)	N/A
Chartered Institute of Legal Executives	ILEX Professional Standards	The exercise of a right of audience The administration of oaths The conduct of litigation	NO	7,947 At 01-Apr-13 (levy figures)	N/A
Council for Licensed Conveyancers		Reserved instrument activities Probate activities The administration of oaths	YES	1,177 At 01-Apr-13 (levy figures)	221 29-Mar-12 (CLC self assessment)
Chartered Institute of Patent Attorneys	Intellectual Property Regulation Board	The exercise of a right of audience The conduct of litigation Reserved instrument activities The administration of oaths	NO	1,980 At 01-Apr-13 (levy figures)	185
Institute of Trademark Attorneys			NO	829 At 01-Apr-13 (levy figures)	
Association of Costs Lawyers	Cost Lawyer Standards Board	The exercise of a right of audience The conduct of litigation The administration of oaths	NO	563 At 01-Apr-13 (levy figures)	N/A
Association of Chartered Certified Accountants (ACCA)*		Probate activities	NO	N/A	N/A
Institute of Chartered Accountants of Scotland (ICAS)*		Probate activities	NO	N/A	N/A
Institute of Chartered Accountants in England and Wales (ICAEW)**		Probate activities	YES	N/A	N/A

*The Institute of Chartered Accountants of Scotland and the Association of Chartered Certified Accountants are approved regulators for reserved probate activities only, but do not currently have any regulatory arrangements and so do not regulate reserved legal services.

**Additionally, in March 2014, the Lord Chancellor approved a recommendation from the LSB to designate the Institute of Chartered Accountants in England and Wales (ICAEW) as an approved regulator and licensing authority for non-contentious probate activities. Pending the passing of necessary secondary legislation, this means that the ICAEW will be able to regulate accountants to provide the reserved legal activity of probate services. Timing cannot be confirmed but we expect, subject to Parliamentary approval, this to be later in 2014.

Our regulatory responsibilities

Our regulatory objectives (RO) are set out in the Act. We share these objectives with the approved regulators and the OLC. The objectives are to:

- protect and promote the public interest (RO1)
- support the constitutional principle of the rule of law (RO2)
- improve access to justice (RO3)
- protect and promote the interests of consumers (RO4)
- promote competition in the provision of legal services (RO5)
- encourage an independent, strong, diverse and effective legal profession (RO6)
- increase public understanding of the citizen's legal rights and duties (RO7)
- promote and maintain adherence to the professional principles (RO8).

The professional principles are further defined in the Act as:

- acting with independence and integrity
- maintaining proper standards of work
- acting in the best interests of clients
- complying with practitioners' duty to the Court to act with independence in the interests of justice
- keeping clients' affairs confidential.

In addition, the better regulation principles, enshrined within the Act, stipulate that in all our activities, we must always be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed.

Ultimately, the primary responsibility for devising, developing and implementing regulation that guarantees public trust and confidence in the legal profession in England and Wales belongs to the regulators. The role of the LSB is to make sure that they meet this responsibility so as to promote the regulatory objectives.

All that we do is designed to ensure that regulators have the competence, capability and capacity to promote and adhere to the regulatory objectives, free from prejudicial representative influence. We have statutory responsibilities in relation to:

- approval and recognition – we consider a range of applications from both existing regulators (including applications to become a licensing authority, changes to regulatory arrangements and extension of scope) and those seeking to become an approved regulator
- monitoring and investigation – we monitor regulators' compliance with regulatory requirements; oversee performance of the OLC; and perform some specific duties in relation to the SDT. We also examine the wider market place to identify trends, gaps in regulation, competition issues and how both our own rules and those of regulators are working in practice
- enforcement and disciplinary activities – we ensure that regulators and licensing authorities perform their duties in a way that meets the regulatory objectives and, where necessary, exercise the powers at our disposal to ensure that this happens. These powers include the power to set targets, give directions, publicly censure a body, impose a fine, intervene in the running of the body and ultimately recommend cancellation of a body's designation as an approved regulator and a licensing authority

- regulation, education and training – we have a duty to assist in the maintenance and development of standards of regulation by approved regulators and in the education and training of persons carrying out reserved legal activities
- scope of regulation – we have powers to make recommendations to the Lord Chancellor on the designation of new activities as reserved and the removal of existing designations.

The Act also makes provision for the LSB to be a licensing authority “of last resort” ie if there is no existing authority with licensing rules suitable for licensing a particular type of ABS. However, in practice this power has never been used, and there is now a sufficient number and variety of licensing authorities in place.

Our key non-regulatory relationships

The LSB is independent of Government but accountable to Parliament through the Lord Chancellor. We are an executive Non-Departmental Public Body (NDPB), sponsored by the MoJ. Although our decision-making powers are independent of MoJ, we work closely on the legislation required to undertake the challenging reforms outlined in the Act.

We are building on our relationship with the Welsh Assembly Government to ensure that we understand the particular perspectives of consumers and providers in Wales. As a body subject to the Welsh Language Act 1993, we have a responsibility to ensure that the Welsh and English languages are treated on a basis of equality. We have published our Welsh Language Scheme¹ and report to the Welsh Language Commissioner annually.

We also have an important relationship with the Panel, which plays a vital role in ensuring that the views and interests of consumers are addressed in our work. Its advice and influence helps to inform our current and future work and we have welcomed its contribution to our work programme. Whilst we appoint and fund the Panel, it operates independently of the Board, with its own secretariat, and our relationship is guided by a memorandum of understanding.

How we are funded

We are financed by a levy on the approved regulators. This is in accordance with the provisions of the Act, which stipulates that the costs of the LSB should be recouped by means of a levy to be collected from the approved regulators on behalf of Treasury. The methodology for calculating the levy is set out in the Statutory Instrument The Legal Services Act 2007 (Levy)(No.2) Rules 2010.

For the period covered by this report, the LSB’s share of the levy was calculated based on the number of authorised persons per approved regulator; the OLC’s share of the levy was calculated using the average number of service complaints during the three-year period ending 31 December 2009. Our document “Review of the Levy Rules” published on 8 April 2014 announced changes to the latter which, subject to the completion of the Parliamentary process, will now be calculated primarily by reference to the number of complaints going to the OLC.

¹http://www.legalservicesboard.org.uk/can_we_help/lbsb_policies_procedures/pdf/welsh_lan_eng.pdf



Our activities in 2013/14

We set out the work we intended to deliver in 2013/14 in our Final Business Plan 2013/14². The Plan set out a range of activities, the milestones we intended to meet in delivering them and why we believed the work was important. The Plan was finalised after public consultation.

Work stream A: Regulatory performance and oversight

ROs supported: RO1, RO4, RO6, RO7

In this work stream, our main aim is to ensure that the better regulation principles are embedded throughout the regulators we oversee. It includes our work on regulator performance assessment where, this year, our main focus has been to assess regulators' progress on delivering their 2012/13 agreed action plans and to look ahead to the next self-assessment exercise in 2014/15.

This is continuing work and is a major concern of the Board. Reducing regulatory inefficiency and improving consistency is key to providing a stable regulatory environment for regulated individuals and businesses. In 2013/14, we have kept very close to progress on the ground as well as the evolving regulatory arrangements for ABS including reviewing the necessary legislative adjustments for "special" and other licensable bodies. In light of emerging concerns about the pace of the SRA's process to approve licences for ABS firms, we issued a statutory information request to enable us to fully understand the causes of delay and whether and where any systemic barriers to progress exist. We have seen significant improvements as a consequence.

We have also taken time to review progress on prior year initiatives specifically how far regulators have managed to improve the way lawyers respond to complaints they receive from dissatisfied consumers (first tier complaints handling). We remain of the view that, despite examples of good practice, there remains much that the legal sector can do to understand the nature of complaints and improve cooperation between regulators.

Alongside our work on service complaints, we also undertook a study into regulators' sanctions and appeals arrangements. This revealed degrees of complexity and inconsistency that, were we to be free to start afresh, would not form part of a modern regulatory framework. Any ability to change is, however, outwith the LSB's remit and would require primary legislation in many cases.

Unfortunately resource constraints prevented us from tracking regulators' progress in delivering improvements to the regulation and provision of immigration advice and services and this work will be carried forward into 2014/15.

²http://www.legalservicesboard.org.uk/news_publications/publications/pdf/business_plan_201213_final.pdf

Milestone/output	Description
Developing standards and performance – Monitor the regulators’ delivery of regulatory effectiveness action plans	
<p>Quarter (Q)1-4: Receive and review reports from regulators on progress on delivering their action plans and other policy areas where action is needed</p>	<p>Completed:</p> <p>Progress by regulators and licensing authorities has been monitored throughout the year and a report presented to the Board each quarter.</p> <p>There has been only minor slippage in the progress of the regulators against their submitted action plans and some regulators have taken significant steps to embed the regulatory standards into their work. Notably, regulators have taken strides to reshape their regulatory approaches to better reflect the need for evidence based risk identification and to undertake proportionate supervision based on those risks</p>
<p>Q4: Finalise plans for 2014/15 self-assessment</p>	<p>Completed:</p> <p>A collaborative approach was taken to planning for the 2014/15 self-assessment process with feedback sought from the regulators. Following this exercise, regulators have been asked to provide an update of progress against their action plans agreed in 2012/13, with a full review scheduled to take place in 2015/16.</p>
Immigration – Improving the regulation and provision of immigration advice and services	
<p>Q2: Review qualifying regulators’ progress to achieving the outcomes for consumers set out in our response document to regulators.</p>	<p>Deferred:</p> <p>Due to insufficient resource to complete this work, it has been re-scheduled and is now expected to be completed in Q2 2014/15</p>
First-tier complaints handling – Monitor the effectiveness of regulators’ progress in improving first tier complaints handling	
<p>Q2: Receive and analyse reports from regulators on progress against action points set out in our July 2012 letters</p>	<p>Completed December 2013:</p> <p>This work was delayed due to the late submission of reports by the regulators. LSB analysis showed that although there is technical compliance with aspects of the signposting obligations, and some good practice, such as enabling consumers to provide feedback, overall, there was little focus on improving complaints handling. Generally speaking, the approach of regulators remains inward looking, and is not based on the needs and experiences of consumers. Cultural change is needed by both regulators and legal services providers to recognise the value of complaints and ensure that the outcomes are met.</p>

Review of regulatory sanctions and appeals processes – Ensure consumers are protected from lawyers who are corrupt, negligent or of poor quality

Q4: Publish discussion document.

Changed and completed:

Our investigation identified a number of areas of inconsistency or complexity across the regulators' arrangements suggesting a need for the following changes to be explored:

- a need for improved clarity and transparency of sanctions and appeal arrangements and of the decisions taken
- SDT and BSB/Bar Tribunals and Adjudication Service (BTAS) to change from the criminal to civil standard of proof for all cases
- all appeals from regulatory decisions (whether made by regulators or tribunals) to be heard by the First Tier Tribunal – to ensure consistency of sanctions in an increasingly diverse, multi-disciplinary market; and
- financial penalty powers for non-ABS firms to be increased to the level of those for ABS.

Many of the report's recommendations would either require changes in statute or precedent making court decisions. As such matters are outside the LSB's remit, we opted not to issue a discussion document but simply to publish the findings of our research.

Ending transitional arrangements for licensable bodies and the regulation of special bodies – Special bodies and licensable bodies

Q1: Issue draft guidance for licensing authorities

Q1: Work with regulators to understand how those they regulate will be affected by ending the transitional protection.

Deferred and completed:

Stakeholder work clarified issues that licensing authorities will need to resolve before we would consider them ready to license special bodies and end the transitional protection in the Act.

Draft guidance was completed and presented to the Board, but in light of pressures faced by special bodies, and the Lord Chancellor's decision to reject the regulation of will writing, the Board decided that this work should be postponed. It will be reconsidered once the outcome of the MoJ's review of legal services regulation is clear.

A statement was released in Q3 informing stakeholders of next steps, the timetable for ending transitional protection for law firms with the Act schedule 5 rights and the wider issue of scope of regulation. Transitional arrangements will stay in place for the time being and it is not anticipated that further work on the issue will be carried out until 2015. In practice this means that there would be an additional period after this date before the transitional protection would come to an end.

Many stakeholders have appreciated the clarity on timing.

The Act (section 110 (1)) also requires the Board's annual report to deal with how, in the Board's opinion, the activities of licensing authorities and alternative business structures have affected the regulatory objectives.

Our view is that the introduction of ABS continue to have a direct and positive impact in particular on the regulatory objectives of protecting and promoting the interests of consumers, promoting competition in legal services and encouraging a strong, diverse and effective legal profession, both through the innovations they have introduced directly and the competitive response they have stirred in mainstream businesses

As at 1 April 2014, there were 41 ABS licensed by the CLC and around 270 by the SRA.

During 2013/14 we have been monitoring the length of time that it takes the SRA to consider ABS licence applications through the use of our powers to obtain information under section 55 of the Act and regular discussions. Our view is that although the SRA now considers applications more quickly than it used to, there are still a number of areas where considerable improvement is needed to reduce the time taken to reach a decision, adopt a more proportionate approach to the regulation of multi-disciplinary firms and minimise the overall regulatory burden on applicants. We will therefore continue our scrutiny in 2014/15.

Work stream B: Strategy development and research

ROs supported: RO1, RO2, RO3, RO4, RO5, RO6, RO7, RO8

Activities in this work stream are key to delivering our statutory obligation to assist in the maintenance and development of standards of regulatory practice and the education and training of lawyers. Often this work is medium-term in focus, such as our work on the scope of regulation, where a major output in 2013/14 was delivery of a radical blueprint for regulatory reform to the MoJ in response to its call for evidence. Or it is designed to influence the future direction of important strands of regulatory activity, such as our work to drive regulators to a review of legal education and training and subsequent statutory guidance on its regulation. Finally, it can be agenda setting, examples being diversity and quality choice tools, where we have focused regulators' attention on the benefits that improvements in both can bring to consumers and to legal businesses.

Underpinning all of our work is our well-regarded research programme, where in 2013/14 we again squeezed maximum value from the allocated budget to deliver a wide-ranging series of qualitative and quantitative studies. Where possible we worked with funding partners to extend the available budget and to enhance our understanding of the topic under consideration. Of particular note this year has been our joint project with Mencap and the Panel, carried out by the Norah Fry Centre, into meeting the legal needs of consumers with learning disabilities. It highlighted an under-served and vulnerable sector of the community and we have been delighted with the response, particularly from The Law Society, to improving resources for practitioners to help them serve these consumers better.

Similarly enthusiastic was the response to our research into the legal needs of small businesses, the engine of growth in the economy, but whose natural instinct when faced with a legal problem is far from turning to a lawyer.

In reporting progress against our published plans, we note that, more than any other, this area of work has undergone a considerable degree of change during the year due to the decision by the Lord Chancellor not to make will writing a reserved legal activity and in light of the MoJ call for evidence as part of their simplification review. This led us to accelerate work which would otherwise have been done in 2014/15, albeit at the cost of work initially planned for the year under review.

Additionally, we responded to Sir Bill Jeffrey's review of criminal advocacy, highlighting changes within the market and further measures to improve its flexible operation.

Milestone/output	Description
Reviewing the scope of regulation – Will writing, probate activity and estate administration	
<p>Q1: Lord Chancellor decision on recommendations for will-writing and estate administration</p>	<p>Completed:</p> <p>The impact assessment for our recommendation for will-writing to be made a reserved legal activity was passed by the Regulatory Policy Committee with a green rating. However despite wide ranging support, in May 2013, the Lord Chancellor rejected the LSB's recommendation to make will-writing a reserved legal activity.</p>
<p>Q2: Subject to positive decision from Lord Chancellor on will-writing, work with MoJ to take forward proposals.</p> <p>Q2: Begin work with stakeholders to facilitate development of voluntary initiatives for estate administration.</p>	<p>Re-scoped:</p> <p>In light of the Lord Chancellors decision, the Board agreed:</p> <ul style="list-style-type: none"> • to bring together industry stakeholders and market participants to begin discussions about possible improvements to industry led schemes • to remind regulators that it is not appropriate for them to deliver a set of rules and regulation for will-writing as if it were a reserved activity but that we expect them to demonstrate that they have reviewed LSB evidence and used this to inform their risk profiling and supervision (and regulators were encouraged to work together to improve standards in the unregulated part of the sector).
Reviewing the scope of regulation – General legal advice	
<p>Q3: Publication of discussion document</p>	<p>Closed:</p> <p>Following the decision by Lord Chancellor not to make will-writing a reserved legal activity a decision was made to formally end the project to review the absence of regulation in this area.</p>
Developing a changing workforce for a changing market – education and training	
<p>Q2: Hold roundtable on education and training in response to LETR</p>	<p>Completed Q3:</p> <p>Following the publication of the LETR report and active engagement with stakeholders the decision was made to issue a consultation paper on proposals for statutory guidance on education and training. Therefore the round table was postponed until September 2013 and fed into consultation on our subsequent statutory guidance.</p>

Q2: Consider need for statutory guidance or policy criteria for education and training in light of initial views on way ahead from regulators

Completed:

A consultation paper on draft statutory guidance for education and training was published in September 2013 to maintain the momentum of implementation following publication of the LETR and to ensure that solutions remained flexible in the light of changing consumer and market need. The decision to issue guidance, therefore, provides a basis to review progress made by regulators in a proportionate and consistent way, and to take future action if required.

The final guidance and next steps was published in March 2014. During 2014/15 we will work with regulators to develop our understanding of the actions that they are taking and provide support where needed.

Developing a changing workforce for a changing market – Diversity

Q2: Review of regulators' implementation of action plans

Completed:

Our review was published in September 2013. Whilst demonstrating that data on diversity and social mobility does now exist, it also highlighted that a great deal of work is still needed to ensure sufficient collection and publication of data across the profession and that regulators need to do more to challenge firms in this area. We discussed the findings with regulators in September in an attempt to identify what improvements could be made to the regulators' diversity data collection and their plans for using the data. The following actions were agreed:

- working in partnership with professional associations to enhance opportunities for delivering the aims in the guidance
- adopting innovative data collection strategies to improve response rates
- identification of diversity as a risk issue across regulatory work streams
- increasing organisation wide buy-in to tackle issues
- greater discussion of the challenges with this work between legal regulators and equivalent bodies in other sectors

Q4: Carry out research into best practice and conceptualisation of talent to promote a positive approach to diversity issues with progression and retention

Deferred until 2014/15:

As this work is now being done by the Universities of Birmingham and Kent, we are not pursuing directly, but will be working with the researchers in the coming year

Developing a changing workforce for a changing market – comparison websites

Q3: Revisit actions with regulators

On-going:

Discussions were held with regulators in 2013/14. A workshop was held in March 2014 with the Panel to underline the Board's determination to make progress in this area. The 2014/15 regulatory standards exercise will be used to signpost regulators to the success criteria identified in the Approaches to quality work

Consumers – review our consumer toolkit, to update and reflect BS18477

Q1: Complete review of consumer toolkit and consider how best to make available to regulators

Completed Q3:

We reviewed and re-launched our Consumer Toolkit to colleagues. The toolkit provides a wide range of resources to assist colleagues with completing a consumer analysis. We are trialling the toolkit internally for six months before considering how best to make it available to regulators.

Cost and complexity of regulation – Analyse whether the current framework's regulatory complexity, inconsistencies and gaps present structural barriers to better regulation, lead to sub-optimal consumer and regulatory outcomes, and prevent appropriate deregulation

Q1: Publication of work programme

Re-scoped and completed Q3:

This work underwent significant re-scoping once the MoJ announced its call for evidence on options to simplify legal services regulation. Work that we had planned to do over a longer time period was either fast-tracked or put on hold whilst we developed our Blueprint for regulatory reform, which outlined a set of proposals for deregulation and simplification.

Q3: Initial report

Specifically it proposes:

- immediate action to target regulation at identified risks
- simplification of the legislative framework for legal services
- rights for consumers of all legal services to access the Legal Ombudsman and new freedoms for the OLC to develop its services, and
- development of timetabled and costed proposals for a new framework in which a single legal services regulator unrelated to any existing regulator, including the LSB should be the core model to be tested.

Research

Q1: Publish research plan

Completed:

The research plan was published in Q1. Throughout the year the LSB delivered a varied research programme designed to develop the evidence base for legal services regulation. All research has been published on the research pages of the LSB website.

Full details can be found on pages 24 to 25

Work stream C: Statutory decision making

In this work stream we deliver many of the LSB's statutory decision-making responsibilities. Some of these are ad hoc, such as approving requests for changes to regulatory arrangements or applications to be designated as an approved regulator or licensing authority, but a number are annual occurrences such as approving levels of practising certificate fees or budgets of the OLC and SDT.

Work in this area also includes our activity to ensure the rules governing the levy we must charge to fund both the LSB and OLC are up to date. In 2013/14 we decided to make minor amendments to these rules of the details of which were published in April 2014.

In our 2013/14 Business Plan, we set out the service standards that we would work to when making our regulatory decisions. Performance against those decisions is set out below.

Activity	How we performed
Publication of applications on our website	<ul style="list-style-type: none"> • 100% (18 out of 18) of applications for approval of changes to regulatory arrangements were published within the two working day target • 100% (4 out of 4) of the designation applications were published within the five working day target
Decisions and recommendations on an application	<p>Changes to regulatory arrangements:</p> <ul style="list-style-type: none"> • 19 decisions in applications to change regulatory arrangements were made • 11 decisions were made in the initial decision period of 28 calendar days • 5 decisions were made in an extended decision period of 90 calendar days • Decisions were made on 3 cases for which a warning notice had been issued to the applicant; 1 case was decided in 410 calendar days and 2 in 269 calendar days <p>Designation applications:</p> <ul style="list-style-type: none"> • Target not achieved • Decisions were made on four designation applications. While all were made within the statutory time limit of twelve months, none were made within our internal target of 130 working days

Publish our decisions, extensions, warnings and refusals to consider applications	<ul style="list-style-type: none"> • 97% (42 out of 43) of notices were published on our website within the target of 2 working days. • One decision notice on an application for approval of changes to regulatory arrangements was published 9 working days after the decision was made as the result of an administrative error
Publish advice from mandatory consultees, written representation from applicants, oral representations	<ul style="list-style-type: none"> • 100% of target achieved. • Advice was received from the Panel, the Office of Fair Trading and the Lord Chief Justice on all of the designation applications decided in the year. In each case the applicant made representations on the advice. The advice and representations are published simultaneously on our website; in each case publication occurred within the target of 5 working days following receipt of the applicants' representations.
Recommendations to the Lord Chancellor	<ul style="list-style-type: none"> • 100% of target achieved • 4 recommendations were made to the Lord Chancellor on designation applications; all were published within 5 working days of the recommendation being made

At the start of 2013/14 there were three ongoing rules change applications and 18 new applications were received. 19 decisions were made and two remained ongoing at the end of the year. The average time for making a decision, excluding the three cases on which warning notices had been issued, was 31.5 days.

13 exemption directions were issued. Two of these were submitted as full applications; after reviewing these applications, the LSB considered that they could be exempted from the full process due to their low significance, impact and risk.

Summary of research activity in 2013/14

The LSB is committed to developing the evidence base for legal services regulation, to support the development of regulatory policy and understand the impacts of reform. We hold detailed consultations with a range of stakeholders on our research plans, through the Research Strategy Group, and seek to work collaboratively with partners where possible. We undertook or commissioned the following research in 2013/14. All research and data is made publicly available via our research web pages³ promoting the use of the findings of research and greater use of evidence in legal services policy making.

Research reports published 2013/14 and commissioned prior to 1 April 2013

	Undertaken by	Date published	Summary
In need of advice? Findings of a Small Business Legal Needs Survey	Professor Pascoe Pleasence, Dr Nigel Balmer, YouGov	May 2013	Quantitative legal needs survey of 9,703 small businesses in England and Wales, identifying the level of unmet need for this consumer group
Scoping a project to understand the proportionality of legal services regulation	Kyla Malcolm	July 2013	Development of an approach to collecting and analysing data to help the development of a future project looking at the proportionality of regulation in legal services
Understanding suppliers and consumers behaviour in legal services	Professor John Maule	July 2013	Research to understand more about the drivers behind the choices consumers and suppliers make, and applying this to understand how regulation can best deliver the regulatory objectives
Understanding consumers who don't use, don't choose or don't trust lawyers	Optimisa Research	July 2013	Research exploring the reasons why many consumers choose to ignore their problems and not get help, don't choose to use a regulated lawyer or simply don't trust lawyers
Understanding the needs of legal services consumers with learning disabilities (joint research with Mencap and the Consumer Panel)	Norah Fry Research Centre from Bristol University	July 2013	Qualitative research to improve understanding of how consumers with learning disabilities experience legal services
Consumers value of regulation	Opinion Leader	November 2013	Report on a series of focus groups and large scale quantitative survey to determine consumers wants from regulation and the monetary value they attach to different elements of regulatory protection

³<https://research.legalservicesboard.org.uk/>

Research reports published and commissioned in 2013/14

	Undertaken by	Planned Publication Date	Research Purpose
Evaluation: Changes in competition in different legal markets	LSB	October 2013	LSB analysis using the market segmentation framework to look at how competition has been effectively promoted between 2010/11 – 2012/13.
Barriers to entry, exit, and merger (in conjunction with Law Society)	Regulatory Policy Institute	December 2013	Economic analysis of regulatory barriers to entry exit and mobility for solicitors

Research in progress - commissioned in 2013/14 but yet to complete

	Undertaken by	Planned Publication Date	Research Purpose
Learning from the legal services in the Personal Injury (PI) market	London Economics	May 2014	Economic and quantitative analysis on what makes access to justice work better in PI than other markets, and what lessons might be for regulation
Legal capability and consumer characteristics	Professor Pascoe Pleasence, Dr Nigel Balmer	May 2014	A quantitative analysis of how consumers attitudes and beliefs about the law affect their responses to legal problems
Supporting consumers to identify and respond to legal problems	Professor John Maule	May 2014	An assessment of the most effective methods of supporting consumers to identify and respond to legal problems
Online divorce and levels of consumer service (in conjunction with the Consumer Panel)	BDRC Continental	September 2014	Investigate the risks and benefits of online service delivery in this growing area, and levels of satisfaction

Financial Statements of the Legal Services Board

for the year ended 31 March 2014

LSB Members' Report

LSB Framework Agreement

The LSB's Framework Agreement states that the overall aim of the LSB is to contribute to the reform and modernisation of the legal services market place in the interests of consumers, enhancing quality, ensuring value for money and improving access to justice across England and Wales.

It does this by working to improve the delivery of legal services by providing oversight of the regulation of the legal services sector. This includes ensuring that the performance of the approved regulators, and the OLC, meet the standards expected of them by society. In relation to the approved regulators, this includes ensuring that the principles of better regulation are adopted and, for both the approved regulators and OLC, that the regulatory objectives outlined in the Act are promoted.

The LSB is accountable to Parliament through the Lord Chancellor and is sponsored by the MoJ. The relationship between the LSB and the MoJ is detailed in the Framework Agreement, which sets out the principles and strategic framework for how the LSB and the MoJ will operate. The Agreement looks at how both parties will:

- meet their responsibilities
- ensure regular contact and communicate with one another
- undertake proper planning and ensure accountability
- support each other.

Financial performance measures and results

The financial performance measure for the LSB is to keep within its annual budget (although it should be noted that we do not budget to incur any

litigation costs). In doing so, it also aims to secure budget efficiencies wherever possible so that there is constant downward pressure on costs. This has been achieved as shown below:

	2013/14	2012/13
	£000	£000
Budget	4,448	4,498
Expenditure	4,266	4,264
Underspend	182	234

The underspend for 2012/13 was mainly due to the LSB holding some posts vacant for an extended period, maintaining the first salary increase for four years at 1%, lower than planned levels of training and deferring capital expenditure in 2011 and in 2012, which reduced depreciation charges.

The underspend for 2013/14 was mainly due to similar factors with additional reductions in expenditure for rent and services following a move to smaller premises at One Kemble Street, which provide better value for money. These factors together enabled the LSB to fund the significant and necessarily unbudgeted costs of the challenge to its decision on the QASA without the need to seek any immediate grant-in-aid which would have led to costs being passed back to the profession in future years.

The LSB is financed by a levy on the approved regulators. This is in accordance with the Act, which stipulates that the costs of the LSB should be recouped by means of a levy, to be collected from approved regulators on behalf of HM Treasury (HMT). The Legal Services Act 2007 (Levy) (No.2) Rules 2010 enables the LSB to request funds from the approved regulators each year equal to its estimated net expenditure.

The LSB, in conjunction with the MoJ and HMT, are seeking to identify a suitable legislative vehicle to make an amendment to s175 of the Act. This is to confirm the current practice whereby the LSB retains all amounts received through the levy and any prescribed fees rather than passing this over to the Consolidated Fund and then having the same amounts returned to it by the MoJ. The LSB believes that this was the intention of Parliament when debating the Bill setting up the LSB although some of the drafting of s175 does not capture this intent correctly.

Income and expenditure is accounted for on an accruals basis. The levy amount charged and collected in 2013/14 was £4,137k (£4,145k 2012/13). The amount of income released from funds held as deferred income was £73k (£254k added to deferred income in 2012/13). As the LSB budget decreases, so will the required levy to fund its activities and this will, as in the previous two years, result in a planned negative cashflow for the year.

The Income and Expenditure Reserve represents the initial grant in aid provided to the LSB to finance its operations as agreed by Parliament. As the levy rules are now in force and the levy is collected in arrears, this reserve will not increase but may be reduced should the LSB return any funds to the Consolidated Fund.

The LSB has recognised £56k that it has received as “prescribed fees”, as defined in the Act section 175 (2), for designation and licensing authority applications. Such fees received are initially treated as deferred income and released to the Statement of Comprehensive Net Expenditure in accordance with the value of work undertaken. These fees are set against the LSB’s expenditure and will also reduce the levy payable by all approved regulators. There were no amounts received as “prescribed fees” left in deferred income as at the 31 March 2014.

Although the LSB has relatively little absolute discretionary spend, as most of its costs are

currently fixed (staffing, premises, Board, outsourced services, depreciation etc), it is constantly striving for the best value for money in the goods and services it purchases, fully cognisant that its funds are generated from the legal services sector.

Until December 2013, the LSB’s finance, facilities and ICT functions were outsourced to its previous landlord, the Competition Commission. As a result of the office move from Victoria House to One Kemble Street at the end of December 2013, those arrangements have come to an end. Following a formal competitive tendering exercise the LSB has awarded a contract to Co-Operative Systems to support and manage all of its ICT systems. Facilities services are provided by the LSB’s new landlord, the Office of Rail Regulation and finance transactional processing services have been brought in-house. As a small organisation, LSB managers are expected to undertake their own HR management, but this is supplemented by an outsourced advice arrangement.

These outsourced arrangements provide the LSB with built in resilience, which is normally not a feature of small organisations. This obviates the need for expensive consultancy or temporary staff cover, whilst ensuring that the organisation still receives a focused bespoke service, which recognises both its independent status and unusual funding and remuneration models (eg absence of defined benefit pensions) compared to most public bodies.

Payment of creditors

The LSB has committed to pay all supplier invoices by the due date or within 30 days of receipt if no due date has been agreed. In line with guidance issued by the Department for Business, Innovations and Skills and the Cabinet Office, the LSB aims to pay all authorised invoices that are not under dispute within 10 days from receipt. Until December 2013, the LSB had contracted with the Competition Commission through a shared services agreement

to meet this target as part of its financial transaction processing service. From 1 January 2014, the LSB took this function in-house. Throughout 2013/14, 100% of these invoices were paid within 10 days.

Pension liabilities

The LSB has established a defined contribution group personal pension scheme into which the LSB makes fixed contributions based on a percentage of each employee's salary but has no other liabilities.

Professional financial advice

The LSB has engaged the services of Philip Lindsell, a chartered accountant, to provide support to the Audit and Risk Committee in reviewing and challenging the policies and procedures instigated by the Executive. In 2013/14, the LSB paid £2.4k (£4k 2012/13) for these services.

Equality and colleague involvement

The LSB is committed to ensuring equality of opportunity in employment and advancement. It strongly believes that all colleagues are entitled to be treated with respect in an environment free from discrimination, harassment, victimisation and bullying.

As an employer, the LSB aims to recruit, motivate, develop and retain outstanding people from diverse backgrounds to deliver its priorities. Even as a relatively small organisation, it strives to support and promote equality both within its organisation and in delivering its external responsibilities. In addition to the LSB's organisational commitment to integrate diversity and equality into its work and organisational culture, it has statutory obligations under The Equality Act 2010. Its Equality Objectives are included in its annual Business Plans, and are the subject of consultation. They apply to internal processes as well as regulatory outcomes. Progress made in meeting these objectives is been reported to the Board and is on the LSB's website.

The LSB maintains an open management style and strives to involve colleagues fully in matters affecting them. It holds regular all-colleague meetings, and colleagues are consulted on matters affecting their employment and welfare. Building on the results from the first colleague engagement survey carried out in November 2012, the LSB continues to carry forward the learning and organisational development points that emerged.

During the course of the year, the LSB maintained its commitment to professional development for all colleagues by providing both internal and external training as required. In addition, each colleague was allocated a small budget that is used to fund learning and development opportunities relevant to personal career aspirations and business need.

Auditor

Internal audit services for the period of this report were provided to the LSB by KPMG LLP.

The LSB's annual financial statements are audited externally by the Comptroller and Auditor General (C&AG) in accordance with the Act, Schedule 1, paragraph 25(4)(a). For the period ended 31 March 2014, a fee of £19.5k will be charged for the audit work that has been performed.

The audit services provided by the C&AG related only to statutory audit work.

So far as I am aware as the Accounting Officer, there is no relevant information of which the LSB's auditors are unaware. I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors are aware of that information.

Chris Kenny

Accounting Officer

22 May 2014

Management Commentary (including Strategic Report)

The LSB and its external environment

The LSB was established by the Act to oversee the regulation of legal services in England and Wales. It took on the majority of its statutory powers and duties on 1 January 2010 and is responsible for overseeing all approved regulators who have primary responsibility for direct regulation of the different branches of the legal profession.

The Act allows the LSB to designate additional bodies as approved regulators, on application, and providing they are able to demonstrate compliance with rules issued by the LSB for the purpose.

In 2013/14, the LSB oversaw regulation by ten approved regulators, which themselves directly regulated the circa 163,000 lawyers practising throughout the jurisdiction. In March 2014, the MoJ, on the LSB's recommendation, began the process of making orders that the ICAEW be designated both as an approved regulator and a licensing authority in respect of probate services. Once these orders take effect, ICAEW will become the first new approved regulator to be designated since the enactment of the Act, and the establishment of the LSB. Taken with the Lord Chancellor's simultaneous decisions to award licensing authority status to IPREG and give new reserved activity rights to IPS, this represents a major step forward in the key objective of enabling liberalisation of the legal services market and encouraging innovation.

The environment in which the LSB and the regulators it oversees operate continues to be challenging. Decisions made by Government on public funding for legal aid, the prevailing economic climate and decisions made by private insurers are all combining to make times hard for some practitioners, not least those operating in criminal and civil law where legal aid funding changes are most significant. Yet this is only one aspect of the legal services market – there remain areas where legal services providers are doing very well, exploiting new markets and seeing healthy profits.

The LSB has to continue to be alive to the full range of risks that such a mixed market environment presents to the regulators achieving the eight regulatory objectives.

The LSB's employees

As at 31 March 2014, the LSB had 25 full time employees and three part time employees, and 46% of the staff complement were women. (A further three posts were in the process of recruitment). The LSB's average sickness absence was 3.2 days per full time equivalent (3.4 days 2012/13). The LSB also supports a range of flexible working patterns.

Environment, social and community issues

The LSB is not required to produce a sustainability report but it is committed to working closely with the Office of Rail Regulation, as its landlord, to ensure that it takes proper account of the impact of all of its activities on the environment. In conjunction with

Inmidtown, the local Business Improvement District, the LSB has achieved the status of sending “zero waste to landfill”.

Within the constraints of business need, the LSB has allowed some colleagues flexibility with working patterns to enable them to undertake public service or other related duties. It will continue to be sensitive to the differing needs of different parts of the community as its work on issues, in particular access to justice and public legal education, progresses.

In 2013/14, LSB colleagues took part in a number of charitable activities, including the London Legal Walk which raises funds to help fund the provision of free legal advice, and has raised over £1,650.

Objectives and strategy for achieving them

The LSB’s Business Plan for the year covered by this Report was published in April 2013 and is available at www.legalservicesboard.org.uk.

This document is set within the context of the LSB’s objectives for the three years 2012-2015, and it includes the medium-term implications for its work and the way in which it intends to deliver them.

The Plan for the year ahead was published in April 2014.

Significant features of the development and performance of the organisation in the financial period

This is summarised in Section A of this Annual Report and Accounts.

Future developments and the trends and factors that the LSB considers likely to impact on its work

The LSB’s work to date continues the process of building a regulatory system for the legal services sector that is able to command continuing public confidence. The consequences of this work - independence in regulation, improved complaints resolution through the Legal Ombudsman and a market open to liberalisation – have and will continue to deliver benefits to consumers, the public, the legal profession and the economy over the years ahead. The LSB has increasingly supplemented this with a sharper focus on effectiveness in regulation with the emphasis on slimming down prescriptive rule books, better risk identification and supervision and rapid and proportionate enforcement to help ensure that legal regulators can make an effective contribution to innovation and growth in the legal services market and wider economy.

In June 2013, the MoJ launched a review to consider what could be done to simplify the legal regulatory framework, and reduce unnecessary burdens on the sector, while retaining appropriate regulatory oversight. This work was preceded by a call for evidence from all stakeholders. The LSB took the opportunity to issue a document entitled A blueprint for reforming legal services regulation in which it highlighted the changes and improvements that had been made possible by the Act, but calls for more radical measures to help secure greater innovation, choice and support growth, while also tackling major risks to public and consumer interests. The blueprint sets out a range of short and long term proposals for both legislative and structural change to the regulatory landscape.

In the external environment, the LSB will continue to be mindful of:

- The challenges of capacity and capability faced by many of the regulators, as they assume wider responsibilities in a changing market, and senior staff and Board members begin to turn over. Its work on regulatory effectiveness has always focused on capacity and capability and this will continue to be a key issue in following through existing actions and planning for a full assessment exercise in 2015/16
- The need for regulatory action – both by the LSB in relation to the bodies it oversees and by those bodies themselves – to focus on risks and key outcomes and avoid prescription and over-intervention in order to reduce costs and burdens and to foster innovation. It notes, in particular, research evidence suggesting the need to address both the perception and reality of excessive burdens on small firms
- The financial challenges facing many firms and the need for a regulatory environment which encourages flexibility and adaptability in the face of these pressures and ensures that consumers are properly protected in both financial terms and continuity of matters if and when a business does leave the market
- The need for regulation to enable a wide range of business models and for regulators to be ever more sensitive to the need to work together when consumer need and business structure leads to integrated services being provided in ways which may cause regulatory overlap or even conflict between requirements on entities and individuals and/or between different regulatory regimes
- Emerging trends such as increasing use of technology to access and deliver services, including ‘self-service’ and outsourcing options, alternative methods of funding such as increasing use of insurance and subscription services, and greater service bundling and an increasing plurality of ownership models – be that shareholder, mutualisation, networks or private equity (domestic or foreign) – alongside more traditional business models, including self-employment. There could on occasion be sharp trade-offs to be managed between the encouragement of innovation and emerging risk to consumer and citizen interest
- Developments in broader regulatory practice in other sectors and other jurisdictions, as well as developments in governmental regulatory policy as a whole and in the practice of related partner bodies, notably the Competition and Markets Authority.

The LSB will continue to play its part in enabling the delivery of more competition and innovation within the sector, and ensuring that markets for both initial and continuing education and training maintain standards of competence, while providing diversity in the provision offered, and the students and practitioners it attracts. The designation of ICAEW as both approved regulator and licensing authority, and the guidance issued in March 2014 on legal education and training, represent examples of the former and latter. Both issues represent activity explicitly provided for by the Act. Each is an example of where coherent, cross-sector thinking is required to make sure that there are no

perverse incentives or unintended consequences of regulation, or the lack of it, for providers or purchasers.

The principal risks and uncertainties facing the LSB and the approach to them

The Board will be significantly refreshed in the course of 2014/15, as the result of a new Chair taking up post in May 2014 and two new members in April 2014. Taken with change at senior management level, this will allow fresh thinking to develop as the Board begins to develop its 2015-18 strategic plan and responds to any changes emerging from current government policy exercises, but it also places a premium on effective programme and risk management to ensure delivery of current priorities without a loss of momentum.

A similar level of turnover is set to occur in many of the bodies which the LSB oversees in the coming year. Whilst the responsibility for managing the similar risks of loss of momentum lies with their respective boards, the LSB will aid the process by strengthening formal and informal contact and focusing rigorously on holding them to account for planned performance improvement.

Risks also arise from the complexity of the legislation in which it operates. It will continue to pursue the implementation of those proposals within the “Blueprint” document which are directly within its control and to highlight to Government the further improvements which are needed. But it will also ensure that its legal disciplines and internal processes are rigorous in ensuring that it operates

plainly within its vires, so that it continues to be able to firmly withstand hostile legal challenge

The LSB has established an Audit and Risk Committee, the remit of which includes ensuring a consistent Board overview of the effectiveness of management action to identify and mitigate risk. The risk management approach captures and assesses risks in relation to all key policy delivery, project and operational areas. This is considered in more detail in the Governance Statement on pages 38-47.

Remuneration Report

Remuneration of the Chairman and other Non-Executive Board Members is set by the Lord Chancellor and is not subject to performance conditions.

The remuneration of the Chief Executive is determined following a recommendation to the Board by its Remuneration and Nomination Committee. The Committee determined in 2008 that the LSB should not make any performance related payments. The Chief Executive does not receive any performance related pay. The performance of the Chief Executive is reviewed annually by the Chairman.

Appointments

All Non-Executive Board Members are appointed by the Lord Chancellor, in consultation with the Lord Chief Justice, for a fixed term of three to five years and Members may be re-appointed for one subsequent term of office.

The Chairman, David Edmonds, was appointed on 1 May 2008 for a three-year term and re-appointed in 2011 for the period 1 May 2011 to 30 April 2014. The Chairman is required to

commit at least 70 days per annum to the work of the LSB.

Two new appointments became effective from 1 April 2014; these are Marina Gibbs as a lay Member and David Eveleigh as a non-lay Member. Members are required to commit at least 30 days per annum to their work with the LSB and attend at least 75% of Board meetings.

In accordance with the Act, the Chief Executive is a Board Member.

Termination

There is no compensation payable for loss of office for Board Members before the expiry of the term of appointment. Three Board members left the LSB on 31 March 2014. The terms of appointment of two of them, Barbara Saunders (lay) and Andrew Whittaker (non-lay) came to an end on that date, while another, Stephen Green (lay), resigned his membership to take up the role of Chair of the Office for Legal Complaints.

The Chief Executive's contract of employment provides for six months' notice on either side.

	Date Appointed	Date Appointment Ends (actual date shown if appointment already expired)
David Edmonds (Chairman)	1 May 2008	30 April 2014
Steve Green (Member)	1 September 2008	31 March 2014 (resigned)
William Moyes (Member)	1 September 2008	31 March 2015
Edward Nally (Member)	14 February 2011	31 March 2015
Barbara Saunders (Member)	1 September 2008	31 March 2014
Andrew Whittaker (Member)	1 September 2008	31 March 2014
Terry Babbs	1 April 2013	31 March 2016
Anneliese Day QC	1 April 2013	31 March 2016
Chris Kenny (Chief Executive)	1 January 2009	(see termination note above)

Remuneration of Chairman and Board Members

The remuneration of the Chairman and Board Members is shown in the table below and has been subject to audit. There were no benefits in kind. Only Board Members are included in this report. They are the only ones who influence the decisions of the LSB as a whole rather than individual parts.

	Remuneration						
	Annual salary Rate	2013/14			2012/13		
		Salary	Pension	Total	Salary	Pension	Total
David Edmonds (Chairman)	63,000	63,000	-	63,000	63,000	-	63,000
Steve Green (Member)	15,000	15,000	-	15,000	15,000	-	15,000
William Moyes (Member)	15,000	15,000	-	15,000	15,000	-	15,000
Barbara Saunders (Member)	15,000	15,000	-	15,000	15,000	-	15,000
Nicole Smith (Member)	-	-	-	-	15,000	-	15,000
Andrew Whittaker (Member)	15,000	15,000	-	15,000	15,000	-	15,000
David Wolfe (Member)	-	-	-	-	15,000	-	15,000
Edward Nally (Member)	15,000	15,000	-	15,000	15,000	-	15,000
Terry Babbs (Member)	15,000	15,000	-	15,000	-	-	-
Anneliese Day QC (Member)	15,000	15,000	-	15,000	-	-	-
Chris Kenny (Chief Executive) ¹	160,000	160,000	36,000	196,000	152,724	43,678	196,402

¹The Chief Executive's contracted salary is £160,000 but the cash amount he receives may vary from year to year as a result of any choices he makes as part of salary sacrifice arrangements.

The contractual pension contribution that the LSB makes to the pension for the Chief Executive is 22.5%.

The Chief Executive was granted an interest free loan of £2,072 for the purchase of an annual rail Travelcard. As at the year end there was an outstanding balance of £1,172 (see note 2(a)(i) to the financial statements).

In 2013/14 remuneration ranged from £25,495 to £160,000 (2012/13 £24,770 to £160,000). In 2012/13, a pay award of 1% of salary budget was distributed on a flat rate basis to all colleagues bar the Chief Executive and the two most senior Directors who waived the award. This award was repeated in 2013/14.

The contractual salary of the most-highly paid Director who was also the most highly paid individual at the LSB in the financial year 2013/2014 was £160,000. This was 3.15 times the median salary of the workforce, which was £50,773.

The contractual salary of the most-highly paid Director who was also the most highly paid individual at the LSB in the financial year 2012/13 was £160,000. This was 3.2 times the median salary of the workforce, which was £50,000.

Chris Kenny

Accounting Officer

22 May 2014

Statement of Accounting Officer's Responsibilities

Under paragraph 25 of Schedule 1 of the Act, the Lord Chancellor, with the approval of Treasury, has directed the LSB to prepare for each financial year a statement of accounts. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the LSB and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the FReM and in particular to:

- apply suitable accounting policies on a consistent basis
- make judgments and estimates that are reasonable and prudent
- state whether applicable accounting standards as set out in the FReM have been followed, and disclose and explain any material departures in the financial statements
- prepare the financial statements on a going concern basis.

The Principal Accounting Officer of MoJ has appointed the Chief Executive as Accounting Officer of the LSB. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the LSB's assets, are set out in *Managing Public Money* published by HMT.

Governance Statement

The LSB's governance framework

This governance statement sets out the basis on which the LSB: is governed and managed; is held accountable; manages risk. The statement also considers the effectiveness of the LSB's governance arrangements.

Scope of responsibility

As Accounting Officer for the LSB, I have responsibility for maintaining a sound system of risk management, governance and internal control that supports the achievement of the LSB's statutory obligations, policies, aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible. In particular, I take personal responsibility to ensure that the LSB:

- complies with all statutory and administrative requirements on the use of public funds, including the principles and policies set out in the HMT publication *Managing Public Money*, relevant Dear Accounting Officer letters and other directions and controls from the Cabinet Office/HM Treasury
- meets its obligations under and acts in line with the regulatory objectives contained in its founding statute, the Act
- operates within the limits of its statutory authority and in accordance with any delegated authorities agreed with the MoJ as the LSB's sponsoring department
- operates in line with the statutory requirements and spirit of the Freedom of Information Act 2000 and complies with Data Protection legislation.

I am an executive member of the Board of the Legal Services Board. The Board is responsible for ensuring the efficient discharge of the LSB's statutory functions and that the LSB complies with any statutory or administrative requirements for the use of public funds.

Corporate governance framework of the LSB

The Board is responsible for the strategic leadership and direction of the LSB. The Board meets at regular intervals, with a quorum of three Members (or one third of the number of Board Members, whichever is the higher) which must have a lay majority.

The LSB welcomes its duty under section 5 of the Act to have regard to generally accepted principles of good corporate governance. In accordance with this, the Board has adopted a Governance Manual, which was reviewed and updated in November 2013. The Manual follows the requirements set out in the UK Corporate Governance Code and other good practice guidance provided by various authorities. The Manual comprises:

- a Code of Practice, which sets out the responsibilities of the Board collectively and the standards of behaviour expected from individual Board Members
- Rules of Procedure (relating to the proceedings at Board meetings and other related matters)
- a Schedule of matters reserved to the Board
- a Scheme of Delegations (setting out matters formally delegated by the Board to the Chief Executive and other senior members of staff)

- the Terms of Reference of the Board's Committees
- policies on expenses, gifts and hospitality, interests, and complaints
- the LSB's Framework Agreement with the MoJ, and
- Finance Regulations.

These documents are published on the LSB's website: www.legalservicesboard.org.uk. In addition, the website includes details of Board Members' biographies and information about their LSB-related expenses, interests and any corporate gifts or hospitality they have received or given.

Board Members are required to declare any interest they may have in Board meeting discussions at the start of each meeting and these are recorded within the minutes. There were no such declarations during 2013/14. In the spirit of transparency, any potential conflicts of interest with Board Members and their other activities are recorded in the Register of Interests, which is available on the LSB's website. A Register of Interests is also kept and published for senior executives of the LSB.

LSB Board

The Lord Chancellor, in consultation with the Lord Chief Justice, appoints the Chairman and non-executive Board Members. The Chairman takes part in the process of recruiting the other non-executive members. The Chairman and non-executive members are responsible for the appointment of the Chief Executive. The Board comprises both non-executives (including the Chairman) and the Chief Executive. The Board met formally on ten occasions during the period April 2013 to March 2014.

Meeting attendance

David Edmonds (Chairman)	10/10
Steve Green (lay member)	9/10
William Moyes (lay member)	10/10
Edward Nally (non-lay member)	10/10
Barbara Saunders (lay member)	10/10
Anneliese Day QC (non-lay member)	5/10
Andrew Whittaker (non-lay member)	8/10
Terry Babbs (lay member)	8/10
Chris Kenny (member and Chief Executive)	10/10

Board Committees

The Board has established three committees. The terms of reference for the Audit and Risk and Remuneration and Nomination Committees were revised and agreed by the Board in November 2013. The terms of reference for the Licensing Authority Committee were agreed by the Board in January 2011.

The Audit and Risk Committee is responsible, on behalf of the Board, for advising me as Accounting Officer on the maintenance of appropriate audit and risk processes within the LSB and the governance of the internal and external audit programmes. It met formally on three occasions during the period 1 April 2013 and 31 March 2014. Representatives from the LSB's internal (KPMG LLP) and external (National Audit Office) auditors attended all relevant meetings.

The main activities of the Committee in 2013/14 related to reviewing and responding to the outcomes of services provided by the NAO and our internal auditors, reviewing the LSB's corporate risk register and risk management framework, reviewing the LSB governance policies and the Annual Report and Accounts for 2013/14.

Members of the Audit and Risk Committee also met in private sessions with the internal and external auditors to discuss their work.

The Remuneration and Nomination Committee is responsible, on behalf of the Board, for reviewing the terms and conditions of service of the Chief Executive and making recommendations to the Board, reviewing the process for determining the terms and conditions of employment of LSB colleagues and other matters relating to appointments. It met formally on two occasions during the period 1 April 2013 to 31 March 2014.

In 2013/14, the Committee scrutinised processes that had been put in place for the appointment of new members to the OLC and the Panel. Plans for inducting and training incoming LSB Board members were considered, and key employment and other human resources policies reviewed. The Committee also reviewed pensions governance, considered future pay policy and considered the outcome of the staff engagement survey.

Both Committees are supported in their roles by external advisers. In particular, Philip Lindsell, a chartered accountant, provides support to the Audit and Risk Committee. His term was due to end in May 2014, but the Audit and Risk Committee, at their meeting in March 2014, decided to extend his contract by one year, until May 2015. Sandra Jenner provides specialist advice to the Remuneration and Nomination Committee. Her contract had been due to expire in August 2013, but has now been extended to August 2015. Both of these appointments are important in assisting members to effectively challenge the executive on the matters that are brought to both Committees.

The papers and minutes of both the Audit and Risk Committee and Remuneration and Nomination Committee are circulated to the Board respectively before and after each meeting.

Membership and attendance records are given below.

Audit and Risk Committee meeting attendance

Steve Green	3/3
Barbara Saunders	3/3
Andrew Whittaker*	1/1
Terry Babbs	2/2
Anneliese Day QC	1/2

*Andrew Whittaker's resignation from the Audit and Risk Committee took effect following the meeting in May 2013. Anneliese Day's and Terry Babbs' membership of the Committee took effect from the meeting in October 2013.

Remuneration and Nomination Committee meeting attendance

William Moyes	2/2
Barbara Saunders	1/2
Edward Nally	2/2

The Licensing Authority Committee was established at the end of January 2011 to fulfil the functions of the Board in preparing to act as, and in its capacity (if any), as a Licensing Authority, and to deal with any matters that arose in relation to those functions. Its membership is set out below.

Licensing Authority Committee

William Moyes (Chairman)
Edward Nally
Barbara Saunders
Chris Kenny

Although this Committee's terms of reference indicate that it would meet three times a year, it did not meet during the period 1 April 2013 to 31 March 2014. The Board was asked and agreed at its meeting in April 2014 to stand this Committee down.

Governance relationship with the OLC

The Act gives the LSB a number of responsibilities in respect of the OLC. The OLC is itself responsible for establishing and administering an independent ombudsman scheme for England and Wales to resolve complaints about lawyers in a fast, fair and impartial way. The Act requires the LSB to:

- With the consent of the Lord Chancellor, appoint and if necessary remove the OLC Chair
- After consultation with the Chair, appoint and if necessary remove the other members of the Board
- Remunerate the OLC Chair and members of the Board
- Give consent to scheme rules made by the OLC, and where necessary, direct the OLC to take steps to modify its scheme rules
- Make rules in consultation with the OLC providing for the imposition of a levy on leviable bodies
- Set performance targets for the OLC or directing such targets to be set
- Approve the annual budget of the OLC, and any subsequent variations to it
- Seek reports on any specified matter related to the function of the OLC

The relationship between the LSB and OLC is governed by a Memorandum of Understanding, which reflects the respective bodies' independent and separate functions, and allows for constructive communication, co-operation and co-ordination in the performance of the bodies' respective responsibilities.

In respect of the annual budget approval, the LSB seeks a range of assurances from the OLC to underpin the annual budget approval process. For the OLC budget year 2013/14, these assurances covered:

- Key risks to delivering the plan for 2013/14
- How the organisation would respond to fluctuations in case volumes
- The amount of income that the OLC expected to raise from the Legal Ombudsman scheme, and how these resources would be distributed across the OLC's various functions
- The OLC's thinking on the funding of planning and establishment work for the take-on of any new jurisdiction.

In respect of my Board's responsibility to issue levy bills to levy payers for the expenditure of the OLC, as LSB Chief Executive and Accounting Officer, I seek a range of assurances from the OLC to underpin the annual budget approval process to reassure me that the Board is not seeking recoupment of ultra vires spend. However, I have no Accounting Officer authority over the propriety of OLC spend – this responsibility rightly rests with the Chief Ombudsman, who is the OLC's Accounting Officer, and through him with the MoJ's Principal Accounting Officer.

As an independent organisation sponsored by the MoJ, the OLC also has responsibilities directly to the Department. Both the LSB and the OLC's Framework Documents make reference to these so that there is no confusion over where responsibility for ongoing financial oversight (the MoJ) or OLC performance (the LSB) lies.

The Chairs and Chief Executives of the LSB and OLC meet on a regular basis to discuss issues of common interest and to ensure that the LSB can secure assurances during the course of the year as to the discharge of the OLC's duties. Additionally, nominated Board members from each organisation meet quarterly to review the OLC's performance in overseeing the administration of the Legal Ombudsman scheme with specific reference to the key performance indicators that the OLC has set for the scheme to meet.

Members of the OLC are required to abide by key elements of the LSB's *Governance Manual*, including the Code of Practice, and policies on expenses, gifts and hospitality and interests.

Governance relationship with the Panel

The LSB is required by the Act to establish a Consumer Panel to represent the interests of consumers. The role of the Panel is to provide independent advice to the LSB about the interests of users of legal services. It does this by investigating issues that affect consumers and advising the Board on the consumer perspective of its decisions.

As at 31 March 2014, the Panel consists of eight lay (non-lawyer) Members who bring expertise from a range of backgrounds, and is supported by a small policy secretariat of two staff, who are employed by the LSB. Elisabeth Davies was appointed permanent Chair of the Panel on 1 August 2012 following a period of time as interim Chair. The Chair receives a fixed fee of £15,000 for a minimum of 30 days per annum; the Members receive a fixed fee of £3,380 for 13 days per annum.

The Panel has its own website **www.legalservicesconsumerpanel.org.uk** containing its workplan, annual report (which sets out membership and governance information as well as its impact), information on its current projects, copies of its publications, and minutes of Panel meetings.

The Board is required to consider any representations made to it by the Panel, and where the Board disagrees with a view or proposal, it must give the Panel a notice to that effect stating its reason for disagreeing. This did not happen in 2013/14.

The Panel may, at the request of the Board, carry out research on behalf of the Board and give advice to the Board. In 2013/14, the Board decided not to seek such advice, leaving the Panel to focus on its own workplan.

The Chairman of the Board and Chair of the Panel meet on a regular basis to discuss issues of mutual interest and the adequacy of resourcing. There were three such meetings in 2013/14. There is also regular staff contact on management and planning issues and, where appropriate, attendance at Board and Panel meetings to discuss both specific advice and to update and challenge on more general issues relating to the interests of consumers within the legal services sector.

Members of the Panel are required to abide by key elements of the LSB's *Governance Manual*, including the Code of Practice, and policies on expenses, gifts and hospitality and interests. As a constituent part of the LSB, the Panel is also required to adopt the principles set out in the LSB's Welsh Language Scheme, and its approach to demonstrating compliance with the Equality Duty set out in the Equality Act 2010.

Executive Group and other executive bodies

The LSB has four executive groups, each with its own terms of reference:

Executive Group: Comprising the Chief Executive, Corporate Director and Strategy Director, this is the senior management team of the LSB and is responsible for the overall delivery of the LSB's executive activity.

Gateway Group: Chaired by the Chief Executive, this group comprises nine members of LSB staff. It considers drafts of Board papers and acts as a resource for all projects and business as usual work when faced with a major policy issue.

Operations Group: This Group is chaired by the Chief Executive and its role is to consider cross-cutting corporate issues. It meets on an ad hoc basis as issues emerge. In 2013/14, this group considered a number of issues related to the LSB's accommodation move.

Programme Board: Chaired by the Corporate Director, this group provides assurance that the programme remains on track against the milestones in the plan and, in particular, focuses on issues of risk at both project and programme level.

Board performance

The performance and effectiveness of the Board, its Committees and individual Board Members are evaluated on an annual basis. In 2013/14, each Board member completed an evaluation and review questionnaire covering a range of topics including skills and expertise, the role of the Chairman and the quality of the support provided to the Board. The role and effectiveness of Committees was also covered as part of this self-evaluation. In addition, each Board member participates in an annual appraisal process which is led by the Chairman. New Board Members receive an induction and ongoing support to assist them in settling into their roles. The LSB Chairman also conducts annual appraisals with the Chairs of OLC and the Panel, who, in turn, undertake annual appraisals of the OLC members and Consumer Panel members respectively.

Some of the areas raised in the 2013/14 LSB Board evaluation, which have been or are being implemented, include:

- Increasing the opportunities for Board members to scrutinise and comment on policy initiatives in advance of formal meetings
- Increasing the exposure of the Board to presentations and briefings by experts from outside the organisation such that Members are kept abreast of current and future developments
- Providing more opportunities for the Board to meet with the Boards of the regulatory bodies

The Board's committee have similarly reviewed their own effectiveness and made changes as a result.

Risk and internal control framework

The LSB Board considers the plans and the overall strategic direction of the LSB, while the Audit and Risk Committee, on behalf of the Board, considers issues of risk in detail. The Board provides constant challenge to the assumptions and risk classification made by the Executive. The issue of risk is addressed at Board meetings as part of the consideration of each paper that is presented. The Board reviewed the full Corporate Risk Register in November 2013 and again in April 2014 .

The Audit and Risk Committee reviewed the Corporate Risk Register at each of its meetings in 2013/14 and took informal advice from Internal Audit to determine the way risk or change in risk had been identified, evaluated and controlled. The Audit and Risk Committee also reviews the system of risk identification and risk management annually. In addition the Internal Audit service conducted a review of risk management processes in early 2014, the outcome of which was reported to be 'good' and was discussed by the Committee in March 2014.

Together with my colleagues, I was responsible for initially identifying the major risks, which are set out in the Corporate Risk Register, and for implementing a system of continuous assessment and review. A major review of the Corporate Risk Register was conducted in May 2013 at the behest of the Audit and Risk Committee. This review included a workshop attended by members of the Gateway Group during which participants were required to consider afresh those risks that could affect the LSB's ability to deliver its Business Plan commitments. The Risk Management Strategy was also reviewed during 2013/14, and the new version was approved by the Board in November 2013. The Strategy is maintained centrally and is accessible to all staff.

Colleagues involved in projects identify and record risks for their respective projects, which feed up into programme and corporate risk reporting, if appropriate. Project and programme risks are reviewed at monthly Programme Board meetings and new and increasing risks are reported to the Gateway Group as part of their monthly review of programme performance. The Gateway Group also reviews the full Corporate Risk Register on a regular basis.

Clear roles and responsibilities for managing risks are defined in the LSB's Risk Management Strategy which may mean taking appropriate action to mitigate, anticipate or exploit the threats or opportunities that arise.

Response to risk

The Board's tolerance for risk varies depending on the nature and severity of individual risk. The Board keeps under active review an appetite for risk that allows it to push itself to achieve the ambitious work programme that it has set itself. The Board has determined that, in general terms, an acceptable risk for the LSB is:

- the likely consequences are insignificant, or
- the occurrence is extremely unlikely, or
- a large potential risk consequence is outweighed by the likelihood of a larger benefit and/or by larger risks arising from inaction, or
- the potential costs of minimising the risk outweighs the cost consequences and/or broader impact of the risk itself.

If the Board determines that a risk exceeds its appetite to accept, it will put in place a strategy to mitigate the risk which will include one or more of the following elements: preventing the risk from occurring by doing things differently; reducing the impact of the risk by taking action to control it in some way; transferring the risk by passing it to a third party via, for instance, an insurance policy or penalty clause; and contingency planning so that should the risk occur, actions are planned and organised to come into force.

The LSB's risk profile and capacity to handle risk

As Accounting Officer, I am ultimately accountable for the management of risk. The Risk Management Strategy defines how risks will be identified, assessed and managed during their lifecycle to ensure that actual and potential risks are identified; risks are assessed and prioritised; where possible, risks are avoided; or risks are reduced to an acceptable level. Assumptions about risk are regularly revisited and reconsidered.

Assessment of risk management

Through its work in reviewing the LSB's Risk Management Strategy, Corporate Risk Register, and risk appetite, the Board and the Audit and Risk Committee have evaluated the quality of the LSB's management of risk during 2013/14 and have confirmed their assessment that the LSB's approach identifies the correct risks, and that mitigating actions are appropriately focused and implemented so as to support the LSB's programme of work to deliver the regulatory objectives. The recent internal audit report has provided further assurance in this area.

Reporting of risk

I have assessed that there are no significant omissions in relation to risk requiring further disclosure. My assessment has been endorsed by the Board and Audit and Risk Committee.

Key risks

Some of the key risks facing the LSB in achieving its priorities in 2014/15 are ongoing. Others arise from the Board reaching a point of transition in its corporate life and from the pivotal point of implementation of the changes initiated by the Act. These include:

Risk: Legal challenges divert LSB resources and attention away from more pressing issues with risks to early action on the issue under challenge and wider risk to our programme. The risk of a legal challenge has now crystallised in relation to the

application for judicial review of the LSB's decision to approve the QASA.

- **Mitigation:** Colleagues are provided with training on public law obligations, and legal input and advice is sought at all stages of project work. External lawyers are also asked to provide challenge on controversial or new projects. Regular reviews of the entire programme by the Programme Board allow resource threats to be identified early, staff redeployed and re-planning kept to the minimum necessary. LSB's stance in legal challenges will usually be to seek expedition of hearings, avoid stays on implementation and seek full reimbursement of our costs in order to minimise the damage caused by tactical litigation.
- Although the claimants in the QASA case were ordered to pay a proportion of the LSB's costs in defending this action, and leave to appeal was initially refused, the claimants have been granted permission at an oral hearing. As at 31 March the outcome of the appeal was unknown, and based on the uncertainty of what amounts may eventually be returned to the LSB or what additional costs it may incur in 2014/15, the LSB has taken a prudent view and not made any allowance in its 2013/14 financial statements for any potential refund of costs.

Risk: Turnover at both Board and staff level causes the work programme to lose momentum and the organisation to lose "corporate memory". This may arise with the loss of four experienced Board members in March/April 2014 and from the fact that over two-thirds of colleagues have now been in post for three years or longer. Additionally the size of the organisation means that significant reactive programmes of work would pose real threat to the delivery of the LSB's work programme.

- **Mitigation:** a flexible resource model is in place that allows project staff to be moved between projects and activities on a short and longer term basis. Resource allocation, delivery targets and pressures are regularly reviewed. The Executive team and the Board are kept informed where major re-planning is likely to be required. Targeted increases in staffing, on a temporary or longer term basis, within overall budgetary limits, could be made in such circumstances. A succession plan is in place and is regularly reviewed. A combination of external input to Board meetings and action in 2014/15 to refresh the Board's strategy will ensure that new members engage quickly with the environment and key issues.

Risk: Resource constraints, Board and senior staff turnover and other priorities in bodies we oversee and the MoJ hinder the achievement of the regulatory objectives, for example through slow progress on statutory instruments to give regulators the ability to facilitate new business models

- **Mitigation:** We continue to liaise regularly with the bodies we oversee at all levels, including Chair, CEO and Board to Board meetings to ensure mutual understanding and seek to operate on a "no surprises" basis. We continue to plan work closely with MoJ on statutory orders to avoid duplication of work and rapid, effective coordinated consultation and drafting.

The wider framework of control

As well as a risk and control framework, the LSB exercises a wider system of internal control which is based on a framework of regular management information, administrative procedures including the segregation of duties, and system of delegation and accountability.

In particular, in the period covered by this report, it included:

- a formal budgetary control system, reviewed and agreed by the Board, which includes monthly reports to the Executive Group

- regular reviews by the Board (at each meeting and with reports circulated in the months in which the Board does not meet, or where rapid decisions are required) and Audit and Risk Committee of periodic financial reports which indicated financial performance against the forecasts
- systems of internal financial control covering procurement and the payment of suppliers and colleagues, the prompt collection of income that was due, appropriate safeguarding and management of assets and banking processes
- assurance statements from senior colleagues setting out their main areas of responsibility, including key elements of the risk control framework operating in their area together with an assessment of the effectiveness of the system and highlighted any weaknesses, if any, that need to be brought to my attention
- formal project management disciplines.
- Core financial systems – this report was rated ‘good’ with one low priority Performance Improvement Opportunity (PIO)
- Corporate governance and risk management – this report was risk rated ‘good’ with four low priority PIOs

The head of internal audit has found that the LSB has adequate and effective internal control and governance processes within the areas of core financial services and governance and risk management.

After review, the Audit and Risk Committee ensures that appropriate actions from previous internal audit reports are carried out and holds the executive to account accordingly.

Information risk and data security

The LSB is a data controller under the Data Protection Act 1998 and is subject to the Freedom of Information Act 2000. The LSB also has appropriate regard to the requirements set out in *HMG Security Policy Framework* issued by the Cabinet Office. This focuses on the outcomes required to achieve a proportionate and risk managed approach to security that enables the LSB to function effectively, safely and securely.

All of the LSB’s electronic data and access to this data is managed securely with support provided by the Competition Commission until the end of December 2013 and then Co-Operative Systems. These two organisations provided advice to ensure that the LSB implements guidance on protection and security of its IT, physical and data assets from CESG (the National Technical Authority for Information Assurance), Cabinet Office and the Centre for the Protection of the National Infrastructure (CPNI).

In March 2014, the Audit and Risk Committee reviewed proposed changes to policies for the LSB covering: Information Security; Internet, Email, Computer and Telecommunications; Whistle-blowing and a scheme for Reporting and

Role of internal audit

The LSB’s governance arrangements and risk management processes are supported by an internal audit function provided by KPMG LLP.

An audit programme is developed on an annual basis, which seeks to focus on those LSB major risks which are suitable to be audited, and the Audit and Risk Committee are consulted on and then approve the final annual audit programme.

The work carried out by KPMG meets the requirements defined in the Government Internal Audit Standards. All audit reports include an independent opinion on the adequacy and effectiveness of the LSB’s system of control together with any recommendations for improvements. Where weaknesses in the control environment are identified, action is taken to strengthen the controls.

Internal audit reviews carried out in 2013/14 were as follows:

Investigation in relation to allegations made by non-employees of the LSB.

During the period of this report, there were no reported security data incidents at the LSB and colleagues received training during the course of March 2014 in the Government's new security classification system.

Assessment of fraud risk

Together with the Audit and Risk Committee, I have reviewed the arrangements for LSB's assessment of the risk that the financial statements may be materially misstated due to fraud, the current processes for identifying and responding to the risks of fraud and any known instances of fraud. I consider that there is a low risk of misstatement due to fraud. The fact that appropriate segmentation of budgetary and authorisation processes are in place and that the organisation does not handle any physical cash both significantly reduce the risk of fraud within the business. Appropriate processes for identifying and responding to the risks of fraud in day to day operations are nevertheless in place. There were no known instances of fraud to report.

Review of the effectiveness of the risk and governance framework

The Audit and Risk Committee has advised me throughout the year on the adequacy of audit arrangements (internal and external) and on the implications of assurances provided in respect of risk and control in the LSB. My review is also informed by the work of the internal auditors, senior managers and comments made by the external auditors in their management letter and other reports. In particular, I have placed reliance on the annual opinion provided to me by the Head of Internal Audit.

Significant control issues

I can confirm that that the LSB has not had any significant control issues during 2013/14 and has no significant weaknesses to address.

Compliance with UK Corporate Governance Code and Corporate Governance in central departments: Code of Good Practice 2011

In drawing up the Governance Statement, I have assessed the LSB's governance arrangements against the requirements outlined in the UK Corporate Governance Code and Corporate Governance in central departments: Code of Good Practice 2011 ('the Code'). Whilst the Code is specifically designed for Central Government Departments, the requirement to "comply or explain" also applies to any other bodies within the scope of Managing Public Money, including the LSB. My assessment, which has been endorsed by the Audit and Risk Committee and the Board, is that the LSB complies with the Code insofar as this is applicable to it, with the exception of one area of non-compliance:

Code 5.9 – At least one, but preferably more, of [the Audit and Risk Committee] members has recent and relevant financial experience:

Philip Lindsell, a chartered accountant, provides support to the Audit and Risk Committee on the basis that none of the four Board Members who served on the Committee during 2013/14 have recent or relevant professional financial experience.

Conclusion

I am satisfied that, throughout a demanding year, the LSB has maintained the level of financial and governance control and oversight necessary to enable, rather than impede, delivery of its radical agenda by a combination of effective management of risk, stewardship of resources and non-executive challenge and engagement.

Chris Kenny

Chief Executive and Accounting Officer
22 May 2014

The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Legal Services Board for the year ended 31 March 2014 under the Legal Services Act 2007. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Board, Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Board and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Legal Services Act 2007. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Legal

Services Board's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Legal Services Board; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of Legal Services Board's affairs as at 31 March 2014 and of the net expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Legal Services Act 2007 and directions issued thereunder by the Lord Chancellor with the approval of HM Treasury.
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with directions made by the Lord Chancellor with the approval of HM Treasury under the Legal Services Act 2007; and
- the information given in the LSB Members' Report and the Management Commentary (including Strategic Report) sections of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Amyas C E Morse

Comptroller and Auditor General

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

2 June 2014

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or

Statement of Comprehensive Net Expenditure for the year ended 31 March 2014			
	Note	2013/14 £'000	2012/13 £'000
Programme costs			
Staff costs	2	2,618	2,583
Depreciation/Amortisation	6 and 7	35	58
Other expenditure	3	1,613	1,623
		4,266	4,264
Income			
Levy income	4	4,210	4,244
Designation and application fees	5	56	20
		4,266	4,264
Net (income)/expenditure		-	-

All operations are continuing. There were no acquisitions or disposals of operations during the period.

The notes on pages 54 to 64 are part of the financial statements.

Statement of Financial Position as at 31 March 2014			
	Note	31 Mar 14 £'000	31 Mar 13 £'000
Non-current assets			
Property, plant and equipment	6	88	36
Intangible assets	7	8	15
Total non-current assets		96	51
Current assets			
Trade and other receivables due within one year	10	37	213
Cash and cash equivalents	8	6,750	6,847
Total current assets		6,787	7,060
Total assets		6,883	7,111
Current liabilities			
Trade and other payables	11	516	744
Total current liabilities		516	744
Assets less liabilities		6,367	6,367
Taxpayers' equity			
Income and Expenditure Reserve		6,367	6,367
		6,367	6,367

Chris Kenny

Accounting Officer

22 May 2014

The notes on pages 54 to 64 are part of the financial statements.

Statement of Cash Flows for the year ended 31 March 2014			
	Note	2013/14 £'000	2012/13 £'000
Cash flows from operating activities			
Net surplus		-	-
Decrease/(Increase) in trade and other receivables		176	(162)
(Decrease)/Increase in trade and other payables		(228)	13
Depreciation/Amortisation		35	58
Net cash outflow from operating activities		(17)	(91)
Cash flows from investing activities			
Purchase of property, plant and equipment		(80)	-
Purchase of intangible assets		-	-
Net cash outflow from investing activities		(80)	-
Net financing		(97)	(91)
Net decrease in cash and cash equivalents in the period		(97)	(91)
Cash and cash equivalents at the beginning of the period	8	6,847	6,938
Cash and cash equivalents at the end of the period	8	6,750	6,847

The notes of page 54 to 64 are part of the financial statements.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2014

	Note	£'000
Income and Expenditure Reserve		
Balance at 31 March 2012		6,367
Changes in Taxpayers' Equity 2012/13		
Comprehensive net expenditure for the year		-
Balance at 31 March 2013		6,367
Balance at 1 April 2013		6,367
Changes in Taxpayers' Equity 2013/14		
Comprehensive net expenditure for the year		-
Notional transfer to Consolidated Fund	1b	4,266
Notional receipt from sponsoring department	1b	(4,266)
Balance at 31 March 2014		6,367

Notes to the financial statements

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2013/14 Government Financial Reporting Manual (FRoM). The accounting policies contained in the FRoM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FRoM permits a choice of accounting policy, the accounting policy that is judged to be most appropriate to the particular circumstances of the LSB for the purpose of giving a true and fair view has been selected. The particular policies adopted by the LSB are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

(a) Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of non-current assets.

(b) Income

Receipts from the levy on the approved regulators are classified as income. Any levy amounts received in excess of the LSB's net expenditure for the year are deferred to the following year. Any shortfall between levy amounts received and the LSB's expenditure are financed by a release of funds deferred from a previous year.

Any cash received as "Prescribed Fees" (Designation and application fees) relating to applications for designation or application to become an approved regulator or licensing authority will initially be accounted for as deferred income and thereafter be released to the Statement of Comprehensive Net Expenditure by reference to the stage of completion.

The LSB, in conjunction with the MoJ and HMT, are seeking to identify a suitable legislative vehicle to make an amendment to s175 of the Act. This is to confirm the current practice whereby the LSB retains all amounts received through the levy and any prescribed fees rather than passing this over to the Consolidated Fund and then having the same amounts returned to it by the MoJ. The LSB believes that this was the intention of Parliament when debating the Bill setting up the LSB although some of the drafting of s175 does not capture this intent correctly. To comply with the strict requirements of s175 for the year ended 31 March 2014 the MoJ will be responsible for making a payment on behalf of the LSB to the Consolidated Fund equivalent to the income received by the LSB for the year from the levy and prescribed fees. Accordingly, a notional transfer to the Consolidated Fund has been shown in the Statement of Changes to Taxpayers' Equity. An equal amount is shown as a notional receipt from the sponsoring department. As there would be no net effect on the financial position of LSB, no equivalent adjustment has been made to the financial statements in respect of prior years.

(c) Capitalisation policy for non-current assets

Property, plant and equipment comprises major technology projects, information technology equipment such as servers, PCs, printers as well as office furniture, fixtures and fittings and office leasehold improvements. Intangible assets comprise software licenses.

Expenditure on major information technology projects is capitalised. This includes expenditure directly incurred on hardware, software and appropriate consultancy costs.

Non-current assets are capitalised where the cost is £2,500 or over. However, for grouped purchases of IT equipment, IT software or furniture, fixtures and fittings, individual items with a cost of £500 or greater are capitalised where the total grouped purchase is £2,500 or more.

Consultancy expenditure is generally charged to the Statement of Comprehensive Net Expenditure when incurred. However, where the level of expenditure is over £30,000 and creates a distinct asset for the LSB which has a life of more than one year, consultancy costs that are directly attributable to the asset are capitalised.

Assets in the course of construction are capitalised at purchase cost and then depreciated from the date that they become operational.

(d) Research

The LSB commissions economic and consumer research to inform its understanding of the legal services market and consumers. The costs of such research are charged to the Statement of Comprehensive Net Expenditure when incurred.

(e) Depreciation/amortisation

Depreciation/amortisation is charged in respect of all capitalised non-current assets (nothing in the month of purchase but a full month in the month of disposal) and charged to the Statement of Comprehensive Net Expenditure at rates calculated (less any estimated residual value) for each asset evenly on a straight line basis over their expected useful life as follows:

Tangible PPE:

Information Technology 4-7 years Furniture, fixtures and fittings 5-6 years

Intangible non-current assets:

Software licences 3-7 years

In line with IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets, the LSB has reviewed the useful economic lives and residual values of its non-current assets and revised its depreciation/amortisation policy for them to cover the period from 3 to 7 years. The effect of this change on the Statement of Comprehensive Net Expenditure is to reduce the charge for the year from £54,000 to £35,000.

(f) Impairment and revaluation policy on non-current assets

The LSB undertakes an annual impairment review of assets to ensure that they are carried at no more than their recoverable amount. The recoverable amount is the amount to be recovered through use or sale of the asset. An impairment reflects a permanent diminution in the value of an asset as a result of a clear reduction of economic benefits or service potential.

Depreciated historical cost is used as a proxy for fair value as this realistically reflects consumption of the assets as allowed by the FReM paragraph. 6.2.6(h). Revaluation would not cause a material difference.

(g) Taxation

Expenditure in the Statement of Comprehensive Net Expenditure and costs for capitalised non-current assets are shown inclusive of VAT, which is irrecoverable for the LSB.

(h) Going concern

The LSB receives funding from the approved regulators through the levy for its operating costs. This arrangement has been enshrined in legislation through a Statutory Instrument and levy funding will continue unless there are changes to primary legislation. The LSB has assurances from the MoJ that, in the unlikely event that this is necessary, Grant in Aid will be provided to meet the cash needs of the organisation. The LSB was subjected to a Triennial Review in 2012 and the outcome was that the functions of the LSB should continue. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

(i) Pensions

The LSB has established a defined contribution group personal pension scheme in which the LSB makes fixed contributions of 10% for all colleagues excluding the Chief Executive and has no other liabilities. The Chief Executive receives a fixed contribution of 22.5%. Such contributions are charged to the Statement of Comprehensive Net Expenditure in the year in which they are incurred.

(j) Operating leases

Rentals are charged to the Statement of Comprehensive Net Expenditure in equal amounts over the lease term. In accordance with the principles of IAS 17 (Leases) and the supplementary guidance specified in SIC15 (Operating leases incentives) the LSB had spread the value of the rent-free period for occupation of space at Victoria House over the initial five year term, which expired in October 2013. This is expanded in note 13.

(k) IFRS in issue but not yet effective and future FReM changes

The LSB has considered annual improvements and new interpretations to existing standards and has determined that there would be no material effect on its current or prior period or a future period.

The LSB has made an assessment of the proposed changes in the FReM for 2014/15 (Amendments to IFRS 10 Consolidated Financial Statements was jointly issued with IFRS 11 Joint Arrangements, IFRS 12 Disclosures of Interests in Other Entities' and amendments to IFRS 7 Offsetting, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures) and has determined that there would be no material effect on its current or prior period or a future period.

2. Staff numbers and related costs**(a) The cost of staff remuneration was:**

	2013/14	2013/14	2013/14	2013/14	2013/14	2012/13
	£'000	£'000	£'000	£'000	£'000	£'000
	Permanent Staff	LSB Board	OLC Board	Consumer Panel	Total	Total
Wages and salaries	1,589	168	140	147	2,044	1,984
Social security costs	189	15	11	14	229	224
Pension and other costs	332	-	-	13	345	375
Total	2,110	183	151	174	2,618	2,583

(i) The remuneration of the Chief Executive is included in staff remuneration. The Chief Executive was granted a repayable interest free loan of £2,072 at the end of October 2013 to finance the purchase of an annual rail travel card. Repayment is by automatic deduction from salary over twelve months. As at 31 March 2014 £900 of the loan had been repaid and there was a balance of £1,172 outstanding. No tax is chargeable on this loan in compliance with HMRC guidance on section 180(1) of the Income Tax (*Earnings and Pensions*) Act 2003. The £1,172 is part of the total shown in note 10 "deposits and advances".

(ii) Other costs include death in service and payments for staff benefits e.g. childcare vouchers.

(iii) Consumer Panel costs include the fixed fees of the Panel as well as the supporting secretariat of two LSB colleagues.

(iv) The fees paid to Board members, which are disclosed in "wages and salaries" as above, are also included in the Remuneration Report.

(b) Number of staff

The average monthly number of full-time equivalent staff, including secondees from government departments, other organisations, staff employed on short-term contract and temporary staff was:

	2013/14	2013/14	2012/13
	Permanent Staff	Total	Total
Directly employed – LSB	28	28	28
Directly employed – Panel secretariat	2	2	2
Total	30	30	30

(c) Redundancy costs

Redundancy costs are accounted for in full in the year that a irrevocable decision has been made. There have been no redundancies in 2013/14 or 2012/13.

The cost of redundancy payments in 2013/14 was £Nil (2012/13- £Nil)

3. Other expenditure		
	2013/14	2012/13
	£'000	£'000
External legal costs	338 *	34
Rentals under operating leases (accommodation)	287	332
Outsourced services	220	253
Research costs	218	445
Running costs - Victoria House and Kemble Street	194	223
Other programme costs	68	69
Recruitment LSB Staff	55	34
Recruitment OLC Members	51	-
Recruitment Consumer Panel	42	24
Legal library services & reference	27	29
Consumer Panel (non pay)	26	25
Professional advisers	15	42
Training	11	47
Travel, subsistence and hospitality LSB Staff	9	10
Travel, subsistence and hospitality LSB Board	12	8
Travel, subsistence and hospitality OLC Board	12	16
Audit fees for statutory audit work	20	21
Internal audit fees	8	11
Total cash items	1,613	1,623
Non-cash items		
- Depreciation	28	38
- Amortisation	7	20
Total non-cash items	35	58
Total other expenditure	1,648	1,681

* The LSB has incurred significant costs in defending a judicial review on QASA. Although the court found in favour of the LSB the decision was subject to an oral hearing by the claimants for permission to appeal. As at 31 March 2014 the outcome was unknown. Please refer to note 16.

4. Income

	2013/14 £'000	2012/13 £'000
Levy income from approved regulators	4,210	4,244
Total	4,210	4,244

5. Designation and application fees

	2013/14 £'000	2012/13 £'000
Change of designation fees:		
The Chartered Institute of Legal Executives	15	1
Sub total	15	1
Licensing authority – application fees:		
Intellectual Property Regulation Board	22	-
Institute of Chartered Accountants in England and Wales	19	19
Sub total	41	19
Total	56	20

6. Property, plant and equipment

	2013/14 £'000	2013/14 £'000	2013/14 £'000
	Information technology	Furniture, fixtures and fittings	Total
Cost			
At 1 April 2013	229	117	346
Additions	9	71	80
Disposals	(21)	(51)	(72)
At 31 March 2014	217	137	354
Depreciation			
At 1 April 2013	215	95	310
Provision for the year	8	20	28
Released on disposals	(21)	(51)	(72)
At 31 March 2014	202	64	266
Net Book Value			
At 31 March 2014	15	73	88
At 31 March 2013	14	22	36

	2012/13 £'000	2012/13 £'000	2012/13 £'000
	Information technology	Furniture, fixtures and fittings	Total
Cost			
At 1 April 2012	229	117	346
Additions	-	-	-
Disposals	-	-	-
At 31 March 2013	229	117	346
Depreciation			
At 1 April 2012	200	72	272
Provision for the year	15	23	38
Released on disposals	-	-	-
At 31 March 2013	215	95	310
Net Book Value			
At 31 March 2013	14	22	36
At 31 March 2012	29	45	74

7. Intangible assets

Software licences	2013/14
	£'000
Cost	
At 1 April 2013	129
Additions	-
At 31 March 2014	129
Amortisation	
At 1 April 2013	114
Provision for the year	7
At 31 March 2014	121
Net Book Value	
At 31 March 2014	8
At 31 March 2013	15
Software licences	2012/13
	£'000
Cost	
At 1 April 2012	129
Additions	-
At 31 March 2013	129
Amortisation	
At 1 April 2012	94
Provision for the year	20
At 31 March 2013	114
Net Book Value	
At 31 March 2013	15
At 31 March 2012	35

8. Cash and cash equivalents

	2013/14	2012/13
	£'000	£'000
Balance at 1 April	6,847	6,938
Net change in cash and cash equivalent balances	(97)	(91)
Balance at 31 March	6,750	6,847

The LSB does not use petty cash and holds all of its cash in the Government Banking Service. It does not have any cash equivalents.

Approved regulators pay their share of the levy by 31 March each year and these funds are then used to finance the LSB's operating costs for the following year.

9. Financial instruments

As the cash requirements of the LSB are met through levy funding provided by approved regulators of the legal profession, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. All financial assets and liabilities are generated by day to day operational activities and are not held to change the risks facing the LSB in undertaking its activities. The LSB is therefore currently exposed to little credit, liquidity or market risk.

10. Trade receivables and other assets

Amounts falling due within one year	2013/14	2012/13
	£'000	£'000
Prepayments	20	185
Deposits and advances	17	28
Total trade and other receivables	37	213

	2013/14	2012/13
	£'000	£'000
Balances with other central government bodies	-	169
Balances with bodies external to government	37	44
Total trade and other receivables	37	213

11. Trade payables and other current liabilities

Amounts falling due within one year	2013/14 £'000	2012/13 £'000
Trade payables		
– External	3	2
Other taxation and social security	67	73
National Audit Office	20	21
Rent free creditor	-	38
Deferred income	182	289
Staff benefits accrual	24	27
Accruals	220	294
Total trade and other payables	516	744

	2013/14 £'000	2012/13 £'000
Balances with other central government bodies	162	125
Balances with bodies external to government	354	619
Total trade and other payables	516	744

12. Capital commitments

There are no capital commitments.

13. Commitments under leases

Operating leases	2013/14 £'000	2012/13 £'000
Buildings		
Not later than one year	154	194
Later than one year and not later than five years	573	-

The LSB had a Civil Estate Occupancy Agreement for Crown Bodies (CEOA) with the Competition Commission (CC) to use and occupy the office space on part of the seventh floor in Victoria House, Southampton Row, London. The start date of this agreement was 1 November 2008 for a total floor space of 5,969 square feet. Under the terms of the CEOA the CC permitted the LSB to use and occupy this area for a "Prescribed Term" of five years and so on until ended by either party giving the appropriate notice under the terms of the CEOA. The CC gave notice to the LSB to vacate the space they occupied in Victoria House in a letter dated 28 March 2013.

The LSB worked closely with the Government Property Unit and explored the available options that met the criteria that the LSB Board had given to the Executive. The LSB signed a CEOA with the Office of Rail Regulation in September 2013 and the LSB moved to One Kemble Street at the beginning of 2014. The figures above for 2013/14 relate exclusively to One Kemble Street. The licence fee to occupy part of the third floor is billed quarterly.

14. Contingent liabilities

There are no contingent liabilities to report.

15. Related party transactions

The LSB is a NDPB sponsored by MoJ. The MoJ is regarded as a related party solely due to its sponsorship responsibility. During the year the LSB had no material transactions with MoJ apart from the notional transactions as shown in the Statement of Taxpayers' Equity.

The LSB has a direct relationship with the OLC and has some oversight responsibilities for the Ombudsman Scheme that the OLC established. Under the Act the LSB is responsible for appointing and paying the salaries and expenses of the OLC Board members, which for the whole reporting period amounted to £163k (£167k 2012/13). The payments for fees for the OLC Board members for 2013/14 were £140k (£140k 2012/13).

During the period there were no other material transactions with the OLC itself or any of the Members of the OLC.

None of the LSB or LSCP Members or key managerial staff undertook any material transactions with the LSB during the year, except for remuneration paid for their services and reimbursement of business travel expenses.

16. Events after the reporting period

In accordance with IAS 10 *Events After the Reporting Period* events after the reporting period are considered up to the date on which the accounts are authorised for issue. The Accounting Officer authorised these financial statements for issue on 22 May 2014.

The only item to report is on the QASA judicial review and that at the hearing on 9 May the courts granted the claimants permission to appeal.



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