

Legal Services Board

Annual Report and Accounts for the Year Ended 31 March 2018

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Performance report

Overview

Statement from the Chief Executive

This is the tenth annual report of the Legal Services Board (LSB) and my second as Chief Executive. During the year the LSB has focussed on delivery of the outputs from the third and final year of the 2015-18 strategic plan. For most of this year, the LSB has not had a permanent chair, Sir Mike Pitt having left the LSB at the end of his term in April 2017. I have been very grateful to Dr Helen Phillips, one of the LSB's lay board Members, who took up the post of interim chair on 1st May 2017 and has continued in this role throughout the year. She has ensured continuity of leadership and helped drive forward the development of the 2018-2021 strategic plan.

The Ministry of Justice (MoJ) undertook its tailored review of the LSB, including the Office for Legal Complaints (OLC), and that report was published in July 2017. The LSB welcomed the findings of this review of the efficiency, effectiveness and governance of the LSB. The conclusion was that there is still a clear need for the LSB. The review also highlighted some fundamental tenets of legal services' regulation including that *"the functions of the LSB need to be delivered independently of government and the professions"* and that *"the LSB should use all of its powers to provide robust assurance on the separation of the frontline regulators from the representative functions of the approved regulators, including the use of its investigative powers where appropriate"*.

We responded to the MoJ in October 2017, accepting the recommendations and setting out our response to them. Our response is available on the LSB's website.

We worked to reinforce regulatory independence. We have reviewed and clarified our enforcement policy and rules. We continued to publish a range of important market data and research, including on the needs of vulnerable consumers with mental health issues and dementia as well as the prices of legal services and on small business legal needs.

Of the many aspects of the work of the LSB I would like to focus on three key areas. Two of these are reasonably well-known features of our work (regulatory performance and our response to the Competition and Markets Authority (CMA) legal services market study). The other is an area of work which I think also deserves a higher profile, namely our day-to-day statutory decisions work.

Regulatory performance

Throughout the year we continued to monitor the ongoing performance of the regulators. This included assessing and reporting on the significant progress they have made delivering their respective action plans in response to our 2016 regulatory performance reports. Our assessments also identified ongoing work that was required to be undertaken by each regulator.

We completed our review of the regulatory performance framework in order to ensure that it continues to drive improvements in performance, and sufficiently challenges regulators to become both more efficient and effective.

We undertook significant engagement as we looked to develop our new approach. Meetings were held with each of the regulators and the Legal Services Consumer Panel (LSCP) in order to discuss the lessons that we and they have learned from previous performance activities. We also looked at similar oversight work in other sectors.

A new risk based approach to overseeing performance was subsequently developed and we consulted on our proposals. Through this consultation we found there to be widespread support for the revised approach which led to it being formally launched in December 2017 with an implementation period over the next 18 months. The new framework will mean that our regulatory performance work is more systematic, proportionate and targeted with a focus on those bodies being well led with good governance arrangements in place.

Responding to the CMA market study

Over the course of the year we have taken forward the CMA's recommendations from its December 2016 legal services market study. The CMA's conclusions supported our own analysis that competition in the sector needed to work better for individual consumers and small businesses. Improvements were needed particularly in relation to price transparency and comparing service quality.

In April 2017 we accepted the CMA's recommendation directed to us and published a document explaining how we would implement this work. Following up on this commitment, in October 2017 we published an assessment of the action plans prepared by each of the frontline regulators that were designed to increase transparency in their parts of the market.

Our assessment was that all the action plans provided a sufficient starting point from which transparency reforms can be delivered, although we did identify some issues to address which were common to a number of the plans. Since then we have continued to monitor the progress being made by regulators, played our full part as members of the Remedies Programme Implementation Group and contributed the learning from our research activities.

Increasing transparency in the market will continue to be a core focus for us over the next period, in particular 2018-19 should be the year when the regulators' proposals are implemented and begin to deliver greater transparency in the market.

Statutory Decisions

Our statutory decisions role is a key part of our work, and refers to the LSB's duties and responsibilities under the Legal Services Act 2007 (the Act) to approve changes to regulatory arrangements and recommend if an applicant body should be designated an approved regulator, licensing authority or to extend an approved regulators scope of regulation. In this reporting year we assessed and approved 14 rule change applications including some significant applications, for example, from the Association of Certified Chartered Accountants (ACCA) to regulate probate for the first time. Other notable applications we received included the Solicitors Regulation Authority's (SRA) *changes to its authorisation rules that provide the framework to allow the SRA to develop the detail of its proposed Solicitors Qualifying Examination*, CILEx Regulation's *Investigation, appeal and disciplinary rules* application, the Master of the Faculties' *Conduct and discipline* application and the Costs Lawyer Standards Board's (CLSB) *Continuing professional development* application.

Every year we also assess and approve practising certificate fee applications for all of the frontline legal regulators. In accordance with the LSB's preference that practising fees should remain static or decrease where possible, without compromising regulatory standards, we are pleased to report that most regulators did not increase their fees, and in one case, reduced them in the past year.

We made all these decisions within the LSB's statutory time limits.

Conclusion

We are now turning our focus to the new three-year strategic plan (2018-21) which we developed and consulted on during the course of this year. We will retain a strategic focus on independent regulation and its underpinning of the rule of law. We will continue to work collaboratively on regulators' performance, consumers' access to services and redress as well as encouraging an innovative and diverse market for legal services. We have refocussed our strategic objectives within these areas to maximise our impact. We are by no means complacent about the challenges ahead, and remain committed to optimising outcomes under the Act to deliver positive change for those using legal services.

Neil Buckley
Chief Executive

8 June 2018

Statement of the purpose and activities of the LSB

Our purpose

The LSB oversees the regulation of legal services in England and Wales. It is independent of both government and the legal profession. We hold to account the ten approved regulators for the different branches of the profession and the Office of Legal Complaints (OLC).

We have a challenging goal – to reform and modernise the legal services marketplace across England and Wales. We want to help create the conditions for competitive, innovative and accessible services that work better for all users and consumers of those services, while protecting consumer and public interests.

Our vision is for legal services that everyone can access and trust. We seek to deliver this by:

- supporting the rule of law and the effective administration of justice – promoting the public interest.
- acting as an agent of change in the sector – enabling innovation and pursuing greater transparency and data collection to build a sound evidence base for progress.
- holding the legal services regulators and the OLC to account – protecting consumers from harm and making sure redress is available if things go wrong.

The Legal Services Act 2007 (the Act) established the LSB on 1 January 2009 and we took on the majority of our statutory powers and duties on 1 January 2010.

We are funded by, but wholly independent of, the legal profession. Our levy in 2017/18 for each person authorised to undertake reserved legal activities was £19, down from over £34 at its peak in 2009/10.

Our regulated community

Details of the ten approved regulators, who they regulate, for which reserved legal activities, and whether they are also licensing authorities, are available on our website.

We also have a number of responsibilities in relation to the OLC, whose role is to administer the Legal Ombudsman scheme. The scheme resolves complaints about lawyers. Our relationship with the OLC is set out in the Act and 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 some 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.

Our regulatory responsibilities

The 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) and
- 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. During 2017/18 we published our new regulatory approach document.

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

Our oversight of the regulators is designed to ensure that they have the competence, capability and capacity to promote and adhere to the regulatory objectives, free from undue 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 aspects of the 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 performance targets, give directions, publicly censure a body, impose a fine, intervene in the running of a regulatory authority in relation to any of its regulatory functions and ultimately recommend cancellation of a body's designation as regulatory 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 contains provision for the LSB to be a licensing authority ‘*of last resort*’ if there is no existing licensing authority with licensing rules suitable for licensing a particular type of alternative business structure (ABS), but these have not been activated.

Key issues and risks

During 2017/18 the LSB maintained its active management of risks in line with the organisation’s risk management strategy. The following two risks were of particular concern:

- During the course of the year, the LSB did not have a permanent Chair. The risk identified was that of the LSB being perceived to be in a position of strategic uncertainty and instability. However, Interim Chair arrangements provided stability and continuity of leadership.
- A risk was identified relating to the LSB’s objective to deliver consumer protection due to performance issues facing the OLC and Legal Ombudsman. To mitigate this risk the LSB put in place voluntary assurance reporting by OLC to LSB Board (see page 26); held regular discussions of its performance with the OLC at Board level; and the Board held discussions on ‘what good looks like’ with the OLC Chair.

Going concern basis

Whilst the Act remains in place, the LSB is required to fulfil its statutory functions. In order to fund our activities, the Lord Chancellor has agreed that a levy of £3.8m for 2018/19 may be raised from the approved regulators to fund our budget.

Performance summary

The Business Plan (the Plan) for 2017/18¹ was the final year of our three-year Strategy.² The Plan set out an ambitious programme of work, including a number of longer-term projects designed to run over into the next strategic planning period. The Plan was agreed on the understanding that external initiatives and other unforeseen occurrences were likely to mean some reprioritisation would be needed during the year.

As of 31 March 2018, alongside fulfilling its in-year obligations to make routine statutory decisions on matters emerging from the regulators, the OLC, and the SDT, the LSB had delivered the majority of work set out in its Plan in line with the published schedule. There is a small element of work that will now be completed in the first few months of 2018/19.

¹ www.legalservicesboard.org.uk/news_publications/publications/pdf/2017/Business%20Plan%20201718.pdf

² www.legalservicesboard.org.uk/news_publications/LSB_news/PDF/2015/The_Strategy_2015_18.pdf

Financial performance

Our budget ceiling for the year was £3,848k and our actual outturn was £3,470k. Whilst we continue to drive down our costs, recruitment time lags in the replacement of departing colleagues and unexpected property rates rebates have contributed to the favourable expenditure variance. These factors are not expected to recur.

Historical Analysis of LSB Budgets	2013/14	2014/15	2015/16	2016/17	2017/18
	£'000	£'000	£'000	£'000	£'000
Total including OLC Board costs	4,448	4,298	4,298	3,998	3,848
Total amount levied per person authorised to undertake reserved legal activities	£25.36	£24.71	£21.55	£18.83	£19.00

Performance analysis

Measuring performance at the LSB

The LSB measures its performance in a number of ways, including performance against the Plan, meeting statutory deadlines, performance against budget and fulfilling statutory requirements such as responding to Freedom of Information Act (FOIA) and Data Protection Act requests.

Detailed performance analysis

Performance against the Plan

One of our key measures is how we perform in delivering our Plan. For 2017/18, our Plan outlined the work the LSB intended to undertake in the final year of its 2015-18 Strategy, with work organised around the three outcomes the Strategy aims to deliver:

- breaking down the regulatory barriers to competition, growth and innovation
- enabling the need for legal services to be met more effectively and
- ensuring that the regulators and the Legal Ombudsman are operating effectively and that there is a shared understanding of the legal services market.

The Plan was underpinned by the regulatory objectives. We balanced these competing and complementary objectives on a case-by-case basis, informed by the particular circumstances of the issue being addressed.

Throughout the year, we keep track of our performance against the Plan through a number of mechanisms. Project teams report monthly to the LSB's Programme Board where progress, risks and issues are discussed. Programme reports are reviewed by the Senior Leadership Team (SLT) monthly and we prepare quarterly performance reports, which are scrutinised by the Board, and submitted to our sponsor department, the MoJ.

We review the impact that our work and the wider impact of the Act's reforms are having on the legal services market through our market evaluation programme. This is a long-running research project which looks at how the legal services market is changing. It seeks to assess whether the market outcomes associated with the regulatory objectives are being achieved over the longer term, the areas where progress is limited, and what the issues might be. During 2017/18 we have started to look at the impact our work may have on legal services as we have drafted and consulted on our three-year Strategy for 2018-21.

A detailed breakdown of work carried out in 2017/18 is set out in the following pages.

Strategic element 1: Breaking down regulatory barriers

Breaking down regulatory barriers is not an end in itself, but is important in helping to facilitate competition, growth and innovation, all of which should deliver benefits for consumers.

As the traditional boundaries between different regulated communities and business models disappear, regulation must keep pace with market developments. Our work in this area aims to make sure that unnecessary regulation that can stifle positive change is removed, helping to deliver the benefits of competition, growth and innovation. Over the Strategy's three-year period, we hoped to:

- facilitate more choice for consumers and reduce unmet legal need
- see a greater range of business models in the sector, with increasingly diverse service provision and an increased ability for service providers to be agile and respond to changing patterns of demand and
- see a smaller number of streamlined and simplified regulatory arrangements.

In 2017/18, we carried out the following work to help break down regulatory barriers	
Making sure that regulation does not unnecessarily deter entry, innovation and investment	We completed this work and published our final report in Quarter 1 of 2017/18. This research project drew upon evidence gathered from investors, regulators, ABS and traditional firms to assess whether there were any regulatory barriers to new forms of investment into regulated law firms.
Developing LSB oversight of standards of education and training	In October 2017 we started work on a project to engage with the wider education and training community. The aim of this project is to ensure we maintain a rich and broad understanding of education and training, ensuring that our approach to oversight continues to be fit for purpose and reflects best regulatory practice, and also ensuring that our approach is not exclusionary. We plan to complete this work during 2018/19.
Innovation research	In 2015 we commissioned research which provided evidence that the legal services market was becoming more innovative, but identified room for further improvement. During Quarter 3 of 2017/18 we commissioned follow up research and fieldwork began in Quarter 4. We expect to publish this research in 2018/19.

Strategic element 2: Tackling unmet legal need

Legal services should be affordable and accessible, consumers must be able to make informed choices to take advantage of the range of services that a more dynamic market could offer, and appropriate protections for consumers and the public interest must be secured.

Our work in this area had a number of aims. We wanted to identify how all consumers, including small businesses, could better meet their legal needs conveniently, affordably and more effectively. We also wanted to improve our and service providers' understanding of the consumer's journey through the legal services landscape, and how we could target our activity in this area to have the most beneficial effect for consumers.

In 2017/18, we were engaged in the following work to help tackle unmet legal need

<p>Increasing market transparency for consumers</p>	<p>The CMA's legal services market study concluded that competition in the legal services sector for individual consumers and small businesses needs to work better for consumers and small businesses. Its main concern was that a lack of information weakens the ability of consumers to drive competition by making informed purchasing decisions.</p> <p>During 2017/18, in line with the CMA's recommendation to us, we have assessed the sufficiency of action plans developed by frontline regulators to improve market transparency, monitored their progress and taken appropriate action where regulators fail to address information gaps.</p>
<p>Understanding how vulnerable consumers access legal services</p>	<p>During 2017/18, we published research on vulnerable consumers' experience of legal services. This research focussed on two groups of consumers: individuals with mental health problems, and those with dementia.</p> <p>We have also been engaging with regulators, consumer organisations and charities using the LSCP guidance on vulnerable consumers to help us identify and promote good practice.</p>
<p>Prices of individual legal services</p>	<p>During Quarter 3 of 2017/18 we published research on prices of individual legal services. This research built on work we carried out in 2015/16.</p> <p>Understanding changes in prices over time is one of the key measures of the impacts of regulatory reforms designed to promote competition and is part of our ongoing commitment to evaluating the impacts of regulatory reform.</p>
<p>The legal needs of small businesses</p>	<p>In 2012/13 and 2014/15, we commissioned large scale quantitative research into the legal experiences of small businesses.</p> <p>We updated this research in 2017/18, to assess whether the experiences of small businesses were changing. This research was published in Quarter 4 of 2017/18 and was launched at an event chaired by the Small Business Commissioner.</p>

Strategic element 3: Performance, evaluation and oversight

Our performance, evaluation and oversight work delivers the range of statutory responsibilities required by the Act. These range from approving new designations and requests for changes to regulatory arrangements, to monitoring the performance of approved regulators in delivering the requirements of the Act and evaluating the Act's impact. We also oversee the OLC's performance in administering the Legal Ombudsman scheme, approve the OLC's budget and consent to its *Scheme Rules*.

In 2017/18, we undertook the following performance, evaluation and oversight work	
Holding regulators to account for their performance	We consulted on proposals for changes to our regulatory performance standards and our process for assessing regulators' performance. We issued a statement setting out the new framework. We will implement our new approach in 2018/19.
Changing shape of legal services regulation	In 2017/18 we continued our work on the benefits and risks associated with changes in regulation, monitoring the extent to which firms were switching regulators. We will continue to monitor the level of regulator switching in 2018/19.
Independence of regulation	We reviewed our Internal Governance Rules (IGRs) to consider whether, in the light of our experience and developments in the sector, any changes are required. We will publish the results of this work in 2018/19.
Diversity – assessing regulators' responses to revised LSB guidance	In August 2017, we carried out progress checks on the regulators' delivery of our revised guidance on encouraging a diverse workforce. We sent our reports to regulators in Quarter 3. This work informs a formal assessment of regulators' performance on diversity issues in 2018/19.
Transparency of regulators' costs	In 2016/17, we reported on the information regulators publish about their costs and asked the regulators to improve the quality and transparency of data. We have been monitoring progress in 2017/18. All regulators have now produced satisfactory statements on costs.
Reviewing delivery of enforcement activities	In November 2017 we started a project to review enforcement policy across regulators, including the process from initial complaint to imposition of sanction. We started our review with one of the larger regulators in Quarter 4 of 2017/18 and will engage with other regulators and report in 2018/19.

Overseeing the Office for Legal Complaints

During 2017/18, we continued to exercise our statutory responsibilities as regards the OLC including approving the OLC's budget for 2018/19 and our on-going responsibility to hold the OLC to account for their administration of the Legal Ombudsman scheme.

During 2017/18 we have agreed a three-way operating protocol with the OLC and the MoJ.

In 2017/18, we have been engaging with stakeholders while developing our new Strategy for 2018-21. We will continue to develop ways to provide assurance on the delivery of our strategy, where possible linking outputs from specific activities to our strategic objectives and indicators of success.

We continued our investigation into the internal governance arrangements of The Law Society and the SRA throughout 2017/18. We expect to publish our decision in early 2018/19.

Performance against statutory performance targets

Our statutory decisions role refers to the LSB's duties and responsibilities under the Act to approve changes to regulatory arrangements and recommend if an applicant body should be designated an approved regulator, licensing authority or to extend an approved regulators scope of regulation. Approving new designations and changes to regulatory arrangements is a key part of our oversight role. By approving new entrant regulators and designations we allow more firms to start to provide or to expand their services and improve choice for consumers. We also encourage the approved regulators, in making changes to their handbooks and rules, to be more outcomes-focussed and to keep regulatory burdens to a minimum. We also have statutory responsibility to approve the practising certificate fee of each regulator and approve the annual budget of the SDT.

Some of these activities have statutory performance deadlines set out in the Act and we have also developed our own targets. We continually monitor performance against these deadlines and targets and record both in the monthly programme highlight report and the quarterly performance report. The breakdown of our performance in 2017/18 is shown below. These figures are derived from ongoing records that the LSB maintains of our processing of applications.

Activity	How we performed
Publication of applications on our website	<ul style="list-style-type: none"> 100% (16 out of 16) of applications for approval of changes to regulatory arrangements were published within the two day working target
Decisions and recommendations on an application	<p>Changes to regulatory arrangements:</p> <ul style="list-style-type: none"> 16 decisions on applications to change regulatory arrangements were made Eight decisions were made in the initial decision period of 28 calendar days Eight decisions were made within an extended decision period of 90 calendar days
Publish our decisions, extensions, warnings and refusals to consider applications	<ul style="list-style-type: none"> 95% (22 out of 23) of notices were published on our website within the target of two working days
Publish advice from mandatory consultees, written representation from applicants, and oral representations	<ul style="list-style-type: none"> 100% of targets achieved Advice was received from the CMA, the Panel, and Lord Chief Justice, all in respect of an application seeking designation as a licensing authority. A written representation was received from the applicant in respect of the same application. Publication of all of the advice and representation occurred within 5 working days following receipt of the applicant's representation.
Recommendations to the Lord Chancellor	A recommendation was made to the Lord Chancellor to make an order designating the Institute of Chartered Accountants in England and Wales an approved regulator and licensing authority for all reserved legal activities (relating to taxation matters). That recommendation was published within five working days.

In 2017/18, we received 16 new applications concerning a change of regulatory arrangements. 16 decisions were made. There were no ongoing applications at the end of the year. Eight decisions were made in the initial decision period of 28 days and the average time to make a decision was 47 days (29.5 days in 2016/17). The reason for the longer average period was that some of the applications were substantial. For example, the SRA's application related to the Solicitors Qualifying Examination and the ACCA's application to introduce regulatory arrangements to regulate probate for the first time.

Nine exemption directions were issued. One of these was submitted as a full rule change application. After reviewing the application we considered that it could be exempted from the full process on the basis of its significance, impact and risk.

Performance against budget

The financial performance measure for the LSB is to keep within its annual budget. In doing so, the LSB aims to secure budget efficiencies wherever possible so that there is constant downward pressure on costs. This has been achieved as shown below:

	2017/18	2016/17
	£'000	£'000
Budget	3,848	3,998
Expenditure	3,470	3,525
Underspend	378	473

The underspend for 2017/18 was due to:

- higher than normal turnover of senior colleagues combined with time lags in recruitment to fill vacancies.
- unexpected property rates rebates passed on to LSB by our landlord.

The underspend for 2016/17 was mainly due to holding some staff posts vacant for an extended period initially while new colleagues were working out their notice at previous employers as well as vacancies on the LSB, Panel and OLC boards.

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* as amended in 2014 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, is still 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 (see note to financial statements 1.3).

Income and expenditure is accounted for on an accruals basis. The levy amount billed to approved regulators in 2017/18 was £3,358k (£3,255k 2016/17). The amount of funds released from deferred income was £94k (£238k released from deferred income in 2016/17). Any underspend that the LSB achieves in one year reduces the amount it needs to collect through the levy in the subsequent year.

The LSB recognises funds received as ‘*application fees*’, as defined in the Act at s175 (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 off against the LSB’s expenditure and also reduce the levy payable by all approved regulators. £22k was received as ‘prescribed fees’ in 2017/18 (£32k 2016/17) and £4.4k remained in ‘deferred income’ from ‘prescribed fees’ as at the 31 March 2018 (£nil as at 31 March 2017).

The LSB is constantly striving for the best value for money in the goods and services it purchases, fully aware that its funds are generated from the legal services sector and continues to drive down its running costs. ICT support is provided by a small enterprise, in line with government’s aim of encouraging the use of SMEs for public sector services. Facilities services are provided by the LSB’s current landlord, the Office of Rail and Road.

Outsourced arrangements have provided the LSB with some resilience, and have obviated the need for expensive consultancy, whilst ensuring that the organisation still receives a focussed bespoke service. This recognises both its independent status and unusual funding and remuneration models (for example the absence of defined benefit pensions) compared to many public sector organisations.

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, Energy and Industrial Strategy and the Cabinet Office, the LSB aims to pay all authorised invoices that are not under dispute within 10 days from receipt. Throughout 2017/18 100% of these invoices were paid within 10 days.

Performance against other measures

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 ABS have affected the regulatory objectives.

Our view remains that the introduction of ABS continues 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. Their value has been to provide a structure for firms wishing to provide services differently to address legal need. While overall numbers have continued to grow over time, and we have evidence of a wider variety of business models in the market than prior to the emergence of ABS, further regulatory reform is necessary. We need to continue to break down regulatory barriers to competition, innovation and growth, empower consumers and enable the need for legal services to be met more effectively. In the longer-term we consider that legislative reform may be necessary to complete the liberalisation of the legal services market. As at March 2018, there were 714 ABS licensed by the SRA, 206 by ICAEW, 68 by the CLC, 40 by IPREG, and 8 by BSB.

The LSB is a public authority for the purposes of the Freedom of Information Act 2000 (FOIA), and we take our responsibility seriously both to make up-to-date information about what we do routinely available through our Publication Scheme, and also to respond constructively and in a timely manner to requests for information.

All requests made under the FOIA must be responded to within 20 working days of receipt. However, we aim to respond to requests within 15 working days. In 2017/18, we received 18 requests, and on average these were responded to within 10 days. All of these requests were dealt with within the 20-day statutory deadline, with the exception of one request that took 34 days³ to respond to.

As a data controller under the Data Protection Act 1998, the LSB is required to respond to any subject access requests within 40 calendar days. One subject access request was received in 2017/18 and was dealt with within the statutory timeframe.

We undertook significant work during the course of 2017/18 in readiness for the General Data Protection Regulations.

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 and Road (the LSB's landlord) to ensure that it takes proper account of the impact of all of its activities on the environment.

Within the constraints of business need, the LSB has allowed colleagues flexibility with working patterns to enable them to undertake public service or other related duties as required. It will continue to be sensitive to the differing needs of different parts of the community.

In 2017/18 LSB colleagues provided support to a local charity, Roots and Shoots. This charity provides vocational training for young people from the inner city, mainly from the London boroughs of Lambeth and Southwark. It aims to give them the skills and self-confidence that will equip them for work.

During the course of the year LSB colleagues supported the London Legal Support Trust, by participating in the London Legal Walk, baking cakes and participating in a quiz night, raising £484.23. Colleagues also took part in the Christmas Jumper Day and donated £45.39 to Save the Children.

Neil Buckley
Accounting Officer

8 June 2018

³This request was the last in a series from one requester spanning two years.

Accountability report

Corporate governance report

LSB Members' report

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.

In 2017/18 the LSB oversaw regulation by ten approved regulators, who directly regulated almost 177,000 lawyers practising throughout the jurisdiction. There is one approved regulator for probate activities, Institute of Chartered Accountants of Scotland, who do not currently authorise anyone to offer the service.

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

The LSB has to respond to the full range of risks that such a mixed market environment presents to consumers of legal services, to the public interest and to those seeking to provide regulated legal services in England and Wales.

Schedule 1 of the Act stipulates that:

The Board is to consist of the following members—

- (a) a chairman appointed by the Lord Chancellor,
- (b) the Chief Executive of the Board and
- (c) at least 7, but not more than 10, other persons appointed by the Lord Chancellor.

and

(1) In appointing persons as ordinary members the Lord Chancellor must ensure that a majority of the members of the Board are lay persons.

(2) The chairman must be a lay person.

The LSB Board has authority and responsibility for controlling the major activities of the LSB during the year and it is only this group that influences decisions of the LSB as a whole.

The names and details of all members of the LSB Board who served during the year are shown in the *Remuneration and Staff Report*.

The LSB requires each Board Member to provide details of any company directorships and other significant interests they hold and this is published on the LSB website.⁴ Members are also required to declare any conflicts or interests in any item being discussed and the Chair will determine whether they need to be excluded for that item. All and any such instances are recorded in the minutes of the Board, which are also published on the LSB website. Members are also required to make a '*related party declaration*' to confirm whether they or any related party to them had undertaken any transactions with the LSB.

⁴ www.legalservicesboard.org.uk/about_us/our_board/board_interests_and_expenses/index.htm#Register

Statement of accounting officer's responsibilities

Under paragraph 25 of Schedule 1 of the Act, the Lord Chancellor, with the approval of HMT, 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 Government Financial Reporting Manual (FReM) and in particular to:

- observe the Accounts Direction issued by the Lord Chancellor with the approval of HMT, including the relevant accounting and disclosure requirements, and 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 the 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.

I confirm that the annual report and accounts as a whole are fair, balanced and understandable and that I take personal responsibility for the annual report and accounts and the judgments required for determining that they are fair, balanced and understandable.

Professional financial advice

The LSB engaged the services of John Ward, a chartered accountant, to provide support to the Audit and Risk Assurance Committee in reviewing and challenging the policies and procedures instigated by the Executive. In 2017/18 the LSB paid him £2.3k (£2k in 2016/17) for these services.

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 2018 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.

The LSB's annual governance statement 2017/18

As Accounting Officer for the LSB, I am responsible for maintaining a sound system of risk management, governance and internal control that enables the LSB to achieve its statutory obligations, aims and objectives, while safeguarding the funds and assets for which I am personally responsible. I particularly take personal responsibility for ensuring 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 from the Cabinet Office/HM Treasury;
- meets its obligations under, and acts in line with regulatory objectives contained in the Legal Services Act 2007 ('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; and
- operates in line with the statutory requirements and spirit of the FOIA and complies with the Data Protection Act 1998.

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

Corporate governance framework

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

The LSB is required, under section 5 of the Act, to have regard to generally accepted principles of good corporate governance. In this regard, the Board has adopted a Governance Manual which is published on the LSB's website at www.legalservicesboard.org.uk/about_us/our_board/board_code_of_practice/index.htm

The LSB website also contains Board Members' biographies, information about their LSB-related expenses, interests and any corporate gifts or hospitality that they have received or given.

LSB Board

The LSB Board comprises both non-executive Members (including the Chair) and the Chief Executive. The Board met formally on 8 occasions during the period 1 April 2017 to 31 March 2018 (not including extraordinary meetings).

Meeting attendance	
*Dr Helen Phillips (Interim Chair, Lay Member)	8/8
Terry Babbs (Lay Member)	8/8
Marina Gibbs (Lay Member)	8/8
David Eveleigh (Non Lay Member)	7/8
Michael Smyth CBE QC (Hon) (Non Lay Member)	8/8
Jemima Coleman (Non Lay Member)	8/8
Jeremy Mayhew (Lay Member)	8/8
Catharine Seddon (Lay Member)	8/8
Neil Buckley (Chief Executive Non Lay Member)	8/8
Sir Michael Pitt (Chair until end April 2017)	1/1

* Interim Chair from May 2017

The Act stipulates that the Board is to consist of a Chair, Chief Executive, and at least seven other Members. Appointments are the responsibility of the Lord Chancellor in consultation with the Lord Chief Justice.

An appointment process for a new Chair of the LSB was run by the MoJ on behalf of the Lord Chancellor during 2017/18. At the time of writing, the MoJ expects an outcome no earlier than June 2018.

Board Committees

The Audit and Risk Assurance Committee (ARAC) 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.

The ARAC met on four occasions during the year in line with its Terms of Reference (ToR).

The Remuneration and Nomination Committee (RNC) is responsible for advising me as Accounting Officer and the Board Chair on a number of HR issues and has responsibilities relating to the appointment of Members of the Board, Legal Services Consumer Panel and OLC.

The RNC met twice during the year in line with its ToR.

Each Committee has a lay majority and is supported in their role by external advisors.

Committee Chairs and Members are appointed by the Board, with neither Chair being the Chair of the Board.

Membership and attendance records are given below.

Audit and Risk Assurance Committee	
Terry Babbs (Chair)	4/4
Marina Gibbs	4/4
Catharine Seddon	4/4
Michael Smyth	4/4

Remuneration and Nomination Committee	
Jemima Coleman (Chair)	2/2
Jeremy Mayhew	2/2
*Marina Gibbs	1/1
**Terry Babbs	1/1

* co-opted onto the Committee for the July 2017 meeting

** co-opted onto the Committee for the February 2018 meeting

Governance relationship with the Office for Legal Complaints

The Act gives the LSB a number of responsibilities in respect of the OLC, including approving the annual budget and appointing its members.

The relationship between the LSB and the OLC is underpinned by a *Memorandum of Understanding*, reflecting the respective bodies' independent and separate functions, and allows for the development and maintenance of constructive working relationships.

As an independent body sponsored by the MoJ, the MoJ has responsibility for oversight of the OLC in respect of matters relating to *Managing Public Money*.

In approving the OLC's budget, the LSB seeks a range of assurances and, for the budget year 2018/19, these covered:

- transparency around the expected trajectories for improvement in OLC's performance;
- an indication of the distribution of resources deployed in the operation of the ombudsman scheme and the amounts of income OLC expect to arise from the operation of the scheme;
- a summary of the key risks to delivering the Plan for 2018/19 and proposed mitigation including confirmation that sensitivity analysis of key assumptions has been carried out in relation to the volumes predicted and any possible variation in predicted income;
- a summary of changes to the budget as a result of stakeholder responses to consultation;
- an estimate of the cost-per-case saving and any relevant improvement in quality the OLC expects to deliver as a result of 2018/19 Modernising LeO initiatives;
- the approximate split of expenditure between:
 - i. handling complaints about legal services
 - ii. work to analyse and feed back to the sector learnings from handling complaints
 - iii. other expenditure not covered by (i) and (ii)

Review of tripartite protocol and MoJ framework agreement

In June 2017, the LSB signed a tripartite operating protocol developed with the OLC and MoJ. This document describes the ways in which the three bodies will work together to discharge their respective responsibilities as regards the OLC. When the protocol was signed, the parties undertook to review the protocol after six months of operation. That review took place in February 2018. It was agreed that the protocol was generally working well and that the few potential minor changes identified would be logged and

amendments made at the full three-yearly review due in June 2020.

Voluntary assurance arrangements

In March 2017, the Board agreed that it would continue to monitor the OLC's performance in administering an effective Legal Ombudsman scheme without using its section 120 powers under which the LSB could request a report from the OLC within a specified period and subsequently publish the report. This was with the proviso that the OLC was willing to continue to provide assurance to the Board on its performance, including performance reports to the LSB on a voluntary basis and to begin reporting publicly on its own performance.

In June 2017, the respective Chairs agreed an approach to voluntary assurance containing a series of elements:

- information about the Legal Ombudsman's performance would be put on its website quarterly (completed, ongoing);
- OLC would continue to provide comprehensive information on scheme performance to the LSB through OLC Board papers and minutes (completed, ongoing);
- quarterly meetings to discuss performance, including attendance by the LSB Chair and CEO at OLC Board meetings twice yearly (completed, ongoing); and
- the OLC Chair would send a voluntary assurance note to the LSB, following each OLC Board meeting, explaining how it has dealt with the Legal Ombudsman's performance at that meeting (notes sent, the content of these is still being developed in discussion with OLC).

In addition, in September 2017, the Board agreed that a shared vision of what good looks like should be developed with the OLC covering the areas of operational performance, governance and transparency. The Board and OLC discussed the operational performance element at its meeting in November 2017 and further discussion with the OLC of the other two elements is planned in early 2018/19.

Governance relationship with the Legal Services Consumer Panel

The LSB is required by the Act to establish a Consumer Panel. 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 analysing issues that affect consumers, and providing the consumer perspective on Board decisions. Details of the Panel's composition and activities can be found on its website: <http://www.legalservicesconsumerpanel.org.uk>

Executive leadership and key business processes

Senior Leadership Team (SLT) Chaired by the Chief Executive and comprising the Chief Executive's direct reports and other senior colleagues. Its role is to provide oversight of the LSB's strategic and business plans, related performance and management information and to ensure delivery of all executive activity and key business processes. The SLT assesses and approves individual projects and serves as a resource for the consideration of major policy issues. The SLT considers all significant finance, commercial and HR processes and matters.

Programme Board This group provides assurance that the Programme remains on track against the milestones in the Plan and, in particular, focuses management of risks 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. Appraisals of individual Board Members are carried out by the Chair in the last quarter of the year.

The Board Evaluation exercise for 2017/18 was conducted by an external consultancy, OE Cam Ltd, who commenced their review in March 2018. The outcomes were reported to the Board at a meeting in May 2018. The external Board evaluation was overseen by the Chair with support from the Head of Corporate Services.

The outcome of this process confirmed that the Board observes principles of collective responsibility, support and respect. The Board also observes generally accepted principles of good corporate governance. Practical considerations such as induction, training, frequency and length of meetings were also judged appropriate. The Board agreed a number of areas for development which will be the focus of activity during 2018/19.

The Board Committees, ARAC and RNC, assessed their effectiveness by reviewing their performance against their Terms of Reference. Each Committee reports after each meeting to the next Board meeting. Each Committee prepared an annual report of its activities to the Board to inform this Report, and these reports were considered by the Board at its March 2018 meeting.

New Board Members receive an induction covering the role of the LSB and their obligations as a Board Member in relation to *Managing Public Money*, and ongoing support to assist them in settling into their new roles. All new members are required to attend courses on accountability and governance for arm's length bodies and have participated in equality and diversity training. Board members who are appointed to serve on ARAC also need to attend an introduction to audit and risk assurance committees if they have not undertaken this previously.

Risk and internal control framework

The Board scrutinises the plans and sets the overall strategic direction of the LSB. The Board owns the risk management strategy, sets the tone and influences the culture of risk management. Executives are the owners of the risk register.

The Board reviewed the Corporate Risk Register at their meetings in May and November 2017.

The ARAC, on behalf of the Board, assesses in detail, issues of risk at each of its meetings, providing constant check and challenge to the assumptions and risk classifications made by the Executive. Risks are considered at Board meetings in the course of discussions of each of the papers presented.

Initial identification of risk is undertaken by colleagues across the LSB, and those which are assessed to be potential risks under the risk framework are added to the Corporate Risk Register.

The LSB proactively assesses and manages its risks at both the corporate and project level.

Colleagues identify and record risks relating to their work. These are reported through the programme and corporate processes as appropriate. Project and programme risks are reviewed at monthly Programme Board meetings. Each month the SLT review programme performance and the full corporate risk register, with new and increasing risks reported to the SLT as part of the monthly review.

The Board's approach to risk management and tolerance for risk is dependent on the area of business to which the risk is attached. The Board has agreed that:

- the tolerance for Operational (including financial) risk will be low. The priority here being business as usual
- the tolerance for Strategic (including environmental and reputational) risk will be relatively high

Where the Board determines that a risk exceeds its tolerable threshold of acceptance, it will put in place a strategy to mitigate the risk which will include one or more of the following elements:

- taking action to prevent the risk from occurring
- reducing the impact of the risk by taking action to control it
- transferring the financial impact of a risk by passing it to a third party via, for instance through an insurance policy or penalty clause, and
- contingency planning to devise actions ready for implementation before predicted risks occur

During the year assurance mapping was introduced as an overarching tool to identify and map the main sources and types of assurance required across four separate lines of defence:

- front line processes in place for day-to-day management of risks;
- management review and oversight of risk management processes;
- independent assurance from internal audit, and;
- external independent review from bodies such as the external auditors.

During the coming year we will ensure that work on the assurance maps and the risk register is coordinated to best effect and provides a framework for connecting risk management and the appropriate level of assurance sought by the organisation.

As Accounting Officer, I am ultimately accountable to the Board for the management of risk.

Assessment of risk management

In reviewing the LSB's risk management strategy, the Board and the ARAC have evaluated the quality of the LSB's management of risk during 2017/18 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.

Reporting of risk

I have assessed that there are no significant omissions in relation to risk that require further disclosure. This assessment has been endorsed by the Board and the ARAC.

During 2017/18 the risk register underwent a zero based review by the SLT. Individual risks identified on the previous version were mapped across to a new register where appropriate. ARAC reviewed and agreed the new register in October 2017.

The Board reviewed its approach to risk management in November 2017 and agreed some minor changes to the Risk Management Strategy.

Key risks

Some of the key risks facing the LSB in achieving its priorities in 2018/19 are ongoing in nature while others are specific to the current stage of the Board's corporate life cycle and the progress made across the sector in implementing changes initiated by the Act. Specific risks managed in 2017/18 were as follows:

Lack of a permanent Chair

Risk: During the course of the year, the LSB was exposed to a risk relating to a permanent Chair replacement not having been identified. The risk related to the LSB being perceived to be in a position of strategic uncertainty and instability.

Mitigation: The Interim Chair provided stability and continuity of leadership pending the permanent appointment made by the Lord Chancellor.

Delivery of consumer protection weakened

Risk: The LSB's objective to deliver consumer protection is weakened owing to performance issues facing the OLC / Legal Ombudsman

Mitigation: Voluntary assurance reporting by OLC to LSB Board; quarterly performance reviews at Board level with OLC performance regularly discussed; twice yearly attendance by LSB CEO at OLC Board; Board discussion of what good looks like with OLC Chair.

Failure to anticipate regulatory consequences of EU exit

Risk: The LSB fails to ensure that the LSB and regulators anticipate the regulatory consequences of EU exit, leading to the sector being unable to operate optimally.

Mitigation: Close monitoring of EU exit developments that are likely to have an impact on regulators; direct engagement with regulators seeking assurance on readiness; following up on MoJ scenario / contingency planning approach; consideration of new EU exit policy and / or project work in 2018/19 following consultation on business plan.

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 and administrative procedures including the segregation of duties and processes for delegation and accountability.

Role of internal audit

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

Internal audit reviews carried out in 2017/18 were as follows:

- assurance mapping;
- staff retention, leaver processes and succession planning; and
- strategic planning and performance.

The Head of Internal Audit has found that overall the LSB has maintained adequate and effective internal controls and governance arrangements within the areas reviewed in 2017/18.

Information security

The LSB is a data controller under the Data Protection Act 1998 and is subject to the FOIA. The LSB also has due 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 from an outsourced managed IT service provider. This organisation helped to ensure that the LSB implements guidance on protection and security of its IT systems, physical and data assets from CESG (the National Technical Authority for Information Assurance), the Cabinet Office and the Centre for the Protection of the National Infrastructure (CPNI).

During 2017/18 there have been no detected data security incidents or breaches.

All new colleagues receive training on information assurance and security, with particular focus on the Government's security classification system and information assurance.

Security and confidentiality of information is included within Board Members' terms and conditions of appointment.

The LSB has completed its preparations for the General Data Protection Regulations (GDPR) which came into force on 25 May 2018. All corporate governance and HR policies have been reviewed for GDPR compliance, introductory training for colleagues has taken place and information owners are working on the areas for which they have responsibility. The Head of Corporate Services has been appointed as the LSB's Data Protection Officer.

Assessment of fraud and error risk

Together with the ARAC, I have reviewed the arrangements for the 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 separation 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. 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.

During 2017/18, colleagues received face-to-face training on anti-fraud and corruption and the Bribery Act 2010, which was provided by the LSB's Legal Adviser.

Whistleblowing arrangements

The LSB has put in place an internal whistleblowing policy which sets out in detail the steps that will be taken in the event that a member of staff seeks to make a protected disclosure. This policy includes the identification of the personnel, including named Board Members, to whom such disclosures can be made.

In addition, a Reporting and Investigation Scheme has been published setting out the process by which persons external to the LSB may report any allegations of fraud or corruption. Such disclosures may also be made to a range of senior LSB staff as well as named Board Members.

Both policies are reviewed annually, as part of the Governance Manual review, to ensure that it is in line with current best practice. The most recent policy review was reported to both ARAC in October 2017 and to the Board in January 2018.

There were no whistleblowing incidents reported during the year.

Review of the effectiveness of the risk and governance framework

The ARAC has advised me 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. The conclusion is included above under the heading: "Role of internal audit".

Quality of the data used by the board

The SLT, chaired by the Chief Executive, is responsible for making submissions to the board on regular matters of business and specific governance issues referred to in this statement. Data assembled by the SLT and reviewed by the Chief Executive includes, but is not limited to: the corporate risk register; assurance mapping documentation; annual budget plans; strategic plans, and; detailed position papers on operational matters arising.

Risk registers, assurance mapping data, annual business plans and strategic plans are subjected to scrutiny by ARAC on an ongoing basis before presentation to the board. Where new risks and new controls arise, discussions take place with the Head of Internal Audit to discuss the appropriateness and depth of reviews by Internal Audit. Given the independent scrutiny of data submitted to the board, I am satisfied with its quality and relevance.

Significant control issues

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

Compliance with Corporate Governance in central government departments: Code of Good Practice 2017

In drawing up the *Governance Statement*, I have assessed the LSB's governance arrangements against the requirements set out in *Corporate Governance in central government departments: Code of Practice 2017* ('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 ARAC 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 states: 'At least one, but preferably more, of [the Audit and Risk Assurance Committee] members should have recent and relevant financial experience -

John Ward, a chartered accountant, provided support to the ARAC on the basis that none of the Board Members who had served on the Committee during 2017/18 had relevant or professional financial experience.

Conclusion

I am satisfied that the LSB has maintained the level of financial and governance control and oversight necessary to enable, rather than impede, delivery of its challenging agenda, with a combination of effective management of risk, stewardship of resources and non-executive challenge and engagement. In particular, I am able to provide assurance on the following elements:

- Finance and commercial processes;
- Human resources;
- Key business processes;
- Management information;
- Information security; and
- Fraud, error and whistle-blowing policies.

Remuneration and staff report

Appointments

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

The LSB's former Chair, Sir Michael Pitt, left on 30 April 2017 and Board Member Dr Helen Phillips was appointed interim Chair on 1 May 2017, pending completion of an appointment process undertaken by the Ministry of Justice on behalf of the Lord Chancellor and in consultation with the Lord Chief Justice. The LSB Chair is required to commit at least 70 days per annum to the work of the LSB.

Members are required to commit at least 30 days per annum to their work with the LSB and to attend at least 75% of Board meetings.

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

As at 31 March 2018, there were nine Board Members - five men and four women.

Termination

There is no compensation payable for loss of office for Board Members before the expiry of the term of appointment.

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

Performance conditions

Remuneration of the Chair 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 the RNC and in consultation with the MoJ. The performance of the Chief Executive is reviewed annually by the Chair. The most recent review undertaken in March 2018 resulted in the award of a bonus of £15k.

Name	Date appointed	Date appointment ends
Dr Helen Phillips (Interim Chair)	9 March 2015	31 March 2023
Terry Babbs	1 April 2013	30 September 2019
Marina Gibbs	1 April 2014	31 March 2020
David Eveleigh	1 April 2014	31 March 2020
Michael Smyth CBE QC (Hon)	18 April 2016	17 April 2019
Jemima Coleman	18 April 2016	17 April 2019
Catharine Seddon	1 October 2016	30 September 2019
Jeremy Mayhew	1 October 2016	30 September 2019
Neil Buckley (Chief Executive)	4 January 2016	(see termination note above)

The table below has been audited and provides details of the remuneration of LSB Board Members who served during 2017-18:

Remuneration of Chair and Board members		2017/18				2016/17			
LSB Board Member	Annual salary Rate	Salary	Pension	Bonus	Total	Salary	Pension	Bonus	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000		£'000
Sir Michael Pitt (Chair until 30/4/17)	60-65	5-10	-	-	5-10	60-65	-		60-65
Dr Helen Phillips* (Interim Chair)	60-65	55-60	-	-	55-60	10-15	-		10-15
Terry Babbs	10-15	10-15	-	-	10-15	10-15	-		10-15
Marina Gibbs	10-15	10-15	-	-	10-15	10-15	-		10-15
David Eveleigh	10-15	10-15	-	-	10-15	10-15	-		10-15
Michael Smyth CBE QC (Hon)	10-15	10-15	-	-	10-15	10-15	-		10-15
Jemima Coleman	10-15	10-15	-	-	10-15	10-15	-		10-15
Catharine Seddon	10-15	10-15	-	-	10-15	5-10	-		5-10
Jeremy Mayhew	10-15	10-15	-	-	10-15	5-10	-		5-10
Neil Buckley **	135-140	135-140	25-30	10-15	180-185	135-140	25-30	10-15	180-185

* Dr Helen Phillips was appointed Interim Chair with effect from 1 May 2017.

** During the year the Chief Executive accepted a remunerated board appointment at a publicly funded body. As a result of this appointment, his remuneration from the LSB was adjusted downwards by the amount of remuneration received from the other publicly funded body. When the appointment at the other body terminates, his remuneration from LSB will revert to the rate prevailing on the date of the new appointment, as adjusted for other normal salary changes which may occur in the interim period.

Remuneration of Chair and Board Members

The remuneration of the Chair and Board Members is shown in the table above. There were no benefits in kind. Only Board Members are included in this report as they are the only ones who influence the decisions of the LSB as a whole rather than individual parts. No payments were made to any former Board Member after they ceased to be a Board Member.

Staff report

LSB employees are not civil servants but public servants. LSB colleagues do not have access to the Principal Civil Service Pension Scheme or any other defined benefit scheme. As at 31 March 2018 the LSB had 26 full time employees and 9 part time employees. 57% of the staff complement was female. The LSB supports a range of flexible working patterns.

The LSB's average sickness absence was 7.23 days per full time equivalent (2016/17: 7.66 days). Two colleagues were absent due to sickness for an extended period of time.

The LSB does not engage any 'off payroll' staff nor does it use any contingent labour: agency (clerical and admin) staff or specialist contractors.

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.

As at 31 March 2018 the five Senior Civil Service equivalents on the Senior Leadership Team, excluding the Chief Executive, comprised three men and two women.

Senior civil servant equivalent by pay band (based on full time equivalent salary rate)

Salary band £'000	Number of senior civil service equivalent within band as at 31 March 2018	Number of senior civil service equivalent within band as at 31 March 2017
£60-£70	1	2
£70-£80	2	1
£80-£90	1	1
£90-£100	0	2
£100-£110	1	1

Numbers of staff and non-executives split between male and female

	Male	Female
LSB Board Members	5	4
Consumer Panel	2	5
Senior Civil Service equivalents	3	2
All others	9	17

Fair pay disclosures (audited)

The table below discloses the relationship between the remuneration of the highest-paid director and the median remuneration of all the organisation's colleagues.

Pay multiples	2017/18	2016/17
Band of highest paid director's total remuneration (£000) *	150 - 155	150 - 155
Median total remuneration (£)	45,339	54,618
Pay multiple	3.36	2.79

* The most highly paid director was also the most highly paid individual in the LSB

The increase in the pay multiple is attributable to a higher number of departures from the Senior Leadership Team than has occurred in the past.

In 2017/18 the annual full-time equivalent rate of remuneration ranged from £10,000 - £15,000 to £150,000 - £155,000. (2016/17: £20,000 - £25,000 to £150,000 - £155,000). In 2017/18, a pay award of 1% of salary budget was distributed on a flat percentage basis to all eligible colleagues.

Staff policies, 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.

The LSB's recruitment policy states our commitment to equality of opportunity at all stages of recruitment and selection and that we will make reasonable adjustments to the recruitment process to ensure that no applicant is disadvantaged because of his/her disability. Shortlisted candidates are selected purely on the basis that their skills and experiences match the job description and colleague specification.

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 the organisation and in fulfilling its responsibilities to external stakeholders. 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.

The LSB's seeks to engage fully with colleagues in all matters affecting them. It holds regular all-colleague meetings and consults with colleagues on matters affecting their employment and welfare. Following the full colleague engagement survey held in 2015/16, a colleague engagement 'pulse' survey was carried out in August 2017 and the LSB is committed to implementing the 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 needs.

Staff numbers and related costs (audited)

Staff remuneration

	2017/18 Permanent Staff	2017/18 LSB Board	2017/18 OLC Board	2017/18 Consumer Panel	2017/18 Total	2016/17 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries	1,571	169	112	142	1,994	2,016
Social security costs	185	14	8	14	221	225
Pension costs	298	–	–	16	314	318
Other staff costs	15	–	–	–	15	28
Total	2,069	183	120	172	2,544	2,587

The remuneration of the Chief Executive is included in staff remuneration.

- Wages and salaries include a 10% benefits allowance paid to all staff, excluding the Chief Executive, as part of the LSB's Total Reward Scheme. Staff can purchase benefits from a menu of choices or take this as cash and the LSB operates a salary sacrifice scheme.
- Other costs include death in service payments and such items as childcare vouchers.
- Consumer Panel costs include the fixed fees paid to Panel members as well as the supporting secretariat of two LSB colleagues
- LSB Board fees, which are disclosed in 'Wages and salaries' are also included in Remuneration of Chair and Board Members table

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

	2017/18	2017/18	2016/17
	Permanent staff	Total	Total
Directly employed – LSB	27.1	27.1	29.0
Directly employed – Panel secretariat	2.0	2.0	1.8
Total	29.1	29.1	30.8

Redundancy costs are accounted for in full in the year that an irrevocable decision has been made. There were no redundancies in 2017/18 or 2016/17. Consequently the cost of redundancy payments in 2017/18 was £nil (2016/17: £nil).

Parliamentary accountability and audit report

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 under which 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 and
- support each other.

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 meets 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 that the regulatory objectives outlined in the Act are promoted. In addition, the LSB has a number of responsibilities relating the governance of the OLC.

Regularity of expenditure (audited)

Losses and special payments - there were no losses or special payments in 2017/18 (2016/17: nil).

Remote Contingent Liabilities - there are no remote contingent liabilities to report.

Long-term expenditure trends - budgeted expenditure for 2018/19 is £3,798k. The LSB continues to strive for efficiency improvements and is committed to reduce this to £3,700k by 2020/21 provided that the assumptions underlying this level of spending remain consistent with the LSB's ability to fulfil its statutory functions.

Neil Buckley
Chief Executive and Accounting Officer

8 June 2018

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 2018 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 including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration and Staff Report and the Parliamentary Accountability Disclosures that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of the Legal Services Board's affairs as at 31 March 2018 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.

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.

Basis of opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice No 10 'Audit of Financial Statements of

Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditors responsibilities for the audit of the financial statements section of my certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Legal Services Board in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Board and Accounting Officer for the financial statements

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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Legal Services Act 2007. 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it

exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Legal Services Board's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Legal Services Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events

or conditions may cause the entity to cease to continue as a going concern

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Other Information

The Board and the Accounting Officer are responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Accountability Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters

In my opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with Secretary of State directions made under the Legal Services Act 2007;
- in the light of the knowledge and understanding of the Legal Services Board and its environment obtained in the course of the audit, I have not identified any material misstatements in the Performance Report or the Accountability Report; and
- the information given in Performance Report and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

- adequate accounting records have not been kept or returns
- adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Accountability 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.

Sir Amyas C E Morse
Comptroller and Auditor General

12 June 2018

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

Financial Statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2018			
	Note	2017/18 £'000	2016/17 £'000
Programme costs			
Staff costs	5	2,544	2,587
Depreciation/Amortisation	6, 7	38	39
Other programme costs	2	888	899
		3,470	3,525
Income			
Levy income	3	3,452	3,493
Designation and application fees	4	18	32
		3,470	3,525
Net (income)/expenditure		–	–

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

The notes on pages 42 to 50 form part of these financial statements.

Statement of Financial Position as at 31 March 2018			
	Note	31 March 18 £'000	31 March 17 £'000
Non-current assets			
Property & equipment	6	39	70
Intangible assets	7	13	20
Total non-current assets		52	90
Current assets			
Trade and other receivables due within one year	9	40	46
Cash and cash equivalents	10	6,905	7,015
Total current assets		6,945	7,061
Total assets		6,997	7,151
Current liabilities			
Trade and other payables	11	630	784
Total current liabilities		630	784
Total assets less total liabilities		6,367	6,367
Taxpayers' equity			
Income and Expenditure reserve		6,367	6,367
Total taxpayers' equity		6,367	6,367

Neil Buckley
Accounting Officer

8 June 2018

The notes on pages 42 to 50 form part of these financial statements.

Statement of Cash Flows for the year ended 31 March 2018			
	Note	2017/18 £'000	2016/17 £'000
Cash flows from operating activities			
Net operating cost		–	–
Decrease/(increase) in trade and other receivables		6	71
(Decrease)/increase in trade and other payables		(154)	(176)
Depreciation/amortisation		38	39
Net (outflow)/inflow from operating activities		(110)	(66)
Cash flows from investing activities			
Purchase of property and equipment		–	–
Purchase of intangible assets		–	–
Net cash outflow from investing activities		–	–
Net (decrease)/increase in cash and cash equivalents in the year		(110)	(66)
Cash and cash equivalents at the beginning of the year	10	7,015	7,081
Cash and cash equivalents at the end of the year	10	6,905	7,015

The notes on pages 42 to 50 form part of these financial statements.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2018		
Income and Expenditure Reserve		
	Note	£'000
Balance as at 1 April 2016		6,367
Changes in Taxpayers' Equity 2016/17		
Comprehensive net expenditure for the year		–
Notional transfer to Consolidated Fund		(3,525)
Notional receipt from sponsoring department		3,525
Balance at 31 March 2017		6,367
Balance at 1 April 2017		6,367
Changes in Taxpayers' Equity 2017/18		
Comprehensive net expenditure for the year		–
Notional transfer to Consolidated Fund	1.3	(3,470)
Notional receipt from sponsoring department	1.3	3,470
Balance at 31 March 2018		6,367

Notes to the financial statements

1. Statement of accounting policies

1.1 Basis of preparation

These financial statements have been prepared in accordance with the 2017/18 Government Financial Reporting Manual (FReM). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM 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.

The functional and presentational currency of the LSB is the British pound sterling (£).

1.2 Accounting convention

These accounts have been prepared on an accruals basis under the historical cost convention, modified by the revaluation of certain assets and liabilities to fair value, where appropriate, as determined by the relevant accounting standards, and subject to the interpretations and adaptations of those standards in the FReM.

1.3 Income

The Legal Services Act 2007 (the Act) makes provision for the costs of the LSB to be recovered through the imposition of a levy on approved regulators (ARs). Before the end of the financial year a levy is calculated and imposed on ARs based on an estimate of the LSB's aggregate net expenditure, as adjusted for the difference between previous estimates and actual expenditure. The total levy is apportioned pro rata to each regulator based on the number of practitioners certified to the LSB by ARs at the beginning of the period, subject to a minimum levy of £3,000 per AR. The levies

imposed are recognised as income in the Statement of Comprehensive Net Expenditure (SoCNE) and any excess of imposed levies over the LSB's actual aggregate net expenditure in the period is deferred to the following year while any shortfall in imposed levies below actual aggregate net expenditure is released to the SoCNE from funds deferred in previous periods. The effect of this treatment ensures that the total income recognised and leviable in the period corresponds to the LSB's actual aggregate net expenditure in the period as intended by the Act whilst timing differences between actual leviable expenditure and estimates billed are dealt with through the deferred income account.

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 are initially recognised in the Statement of Financial Position (SoFP) as deferred income and subsequently recognised as income in the SoCNE on a stage of completion basis.

Under a strict interpretation of s175 of the Act, the LSB is required to surrender all amounts it receives from the levy and prescribed fees to the Consolidated Fund. However, the LSB, the MoJ and HMT are in agreement that this was not the original intention of the parties and the current practice, as agreed between the parties, is for the LSB to retain all amounts received in order to fund its operations. Until a suitable legislative vehicle is devised to reflect the current practice and intention of all parties, 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.

1.4 Property and equipment

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

Initial recognition and capitalisation threshold

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

Non-current assets are capitalised where the cost is £2,500 or more. 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 over £30,000 is capitalised if it is directly attributable to bringing into operation a distinct asset with a life of more than one year. All other consultancy expenditure is charged to the SoCNE when incurred.

Assets under construction are recognised at cost and depreciated from the date that they become operational.

Impairment and revaluation

The LSB undertakes an annual impairment review of assets across all significant asset categories. If indicators of impairment exist, the assets in question are tested for impairment by comparing the carrying value of those assets to their recoverable amount. 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 and is charged to the SoCNE.

Depreciated historical cost is used as a proxy for fair value as this realistically reflects consumption of the assets as allowed by the FReM. Revaluation would not cause a material difference and the total value of all asset classes is defined as 'low'.

Depreciation and amortisation

Depreciation and amortisation is charged to the SoCNE on a straight-line basis at rates calculated to write off the value of assets, less any estimated residual value, over their expected useful lives. Depreciation commences in the month following acquisition with a full month's charge in the month of disposal. Estimated useful asset lives are within the following ranges:

Tangible property and equipment

Information technology	4-7 years
Furniture, fixtures and fittings	5-10 years

Intangible assets

Software licences	3-7 years
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In line with IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets, the useful economic lives and residual values of assets were reviewed resulting in an extension of the depreciation period by an additional year. The effect of this change on the SoCNE is to reduce the charge for the year from £39k to £38k.

1.5 Research

The LSB commissions social science and consumer research to inform its understanding of the legal services market and consumers. The costs of such research are charged to the SoCNE when incurred.

1.6 Value Added Tax

The activities of LSB are outside the scope of VAT. Output tax does not apply and input tax on purchases is not recoverable.

1.7 Employee benefits

Pension

The LSB has established a defined contribution group personal pension scheme under which the LSB makes fixed contributions of 10% of the salary for all colleagues and has no other liabilities. The Chief Executive receives a fixed contribution of 19.4%. Pension contributions are charged to the SoCNE in the year in which they are incurred.

Employee leave accrual

An accrual is made for untaken employee annual leave.

1.8 Operating leases

Payments made under operating leases (net of any incentives received from the lessor) are charged to the SoCNE on a straight-line basis over the period of the lease.

1.9 Going concern

The Act makes provision for LSB to receive funding from ARs through the levy and this arrangement is expected to continue until there are changes to primary legislation. The MoJ has confirmed an overall budget for the LSB of £3.798m for 2018/19. There are no current plans to alter the Act and it has therefore been considered appropriate to adopt a going concern basis for the preparation of these financial statements.

1.10 Changes in accounting policy and disclosures

Changes in accounting policies

There have been no changes in accounting policies for the year ended 31 March 2018.

New and amended standards adopted

There have been no new or amended standards adopted in the period ended 31 March 2018.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2017 and not early adopted

IFRS 9: Financial Instruments, IFRS 15: Revenue from contracts with customers and IFRS 16: Leases, are not yet effective for public sector reporting.

IFRS 9: Financial Instruments (replacing IAS 39) aims to simplify financial instrument accounting and more closely align accounting and practices with how instruments are used in the entity. The impact of IFRS 9 on the LSB's future accounts is still being assessed. Effective from 2018-19.

IFRS 15: Revenue from contracts with customers aims to replace a significant amount of existing guidance and reduce inconsistencies by setting a new principles-based Standard. The impact of IFRS 15 on the LSB's future accounts is still being assessed. Effective from 2018-19.

IFRS 16: Leases provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is short term (less than 12 months) or the underlying asset has a low value. The full impact of IFRS 16: Leases on the LSB will not be determined until it has been adopted for use in the public sector by the FReM. Effective from 2019-20.

2. Other programme costs

	2017/18 £'000	2016/17 £'000
External legal costs	58	6
Accommodation – licence to occupy fee	165	166
Outsourced services	98	94
Research costs	118	159
Running costs	57	128
Other programme costs	61	65
Recruitment LSB Staff	93	61
Recruitment OLC Members	41	32
Recruitment Consumer Panel	11	27
Legal library services & reference	36	34
Consumer Panel (non pay)	44	32
Professional advisers	35	14
Training	21	21
Travel and subsistence – LSB Staff	2	5
Travel and subsistence – LSB Board	11	13
Travel and subsistence – OLC Board	8	9
Audit fees for statutory audit work	20	20
Internal audit fees	9	13
Total cash items	888	899
Non-cash items		
– Depreciation	31	32
– Amortisation	7	7
Total non-cash items	38	39
Total other programme costs	926	938

3. Levy income

	2017/18 £'000	2016/17 £'000
Levy income from approved regulators	3,452	3,493
Total	3,452	3,493

4. Designation and application fees

	2017/18 £'000	2016/17 £'000
Designation application fees: ICAEW	–	32
Licensing authority application fees: CILEx	18	–
Total	18	32

5. Staff costs

	2017/18 Permanent Staff	2017/18 LSB Board	2017/18 OLC Board	2017/18 Consumer Panel	2017/18 Total	2016/17 Total
	£'000	£'000	£'000	£'000	£'000	£'000
Wages and salaries	1,571	169	112	142	1,994	2,016
Social security costs	185	14	8	14	221	225
Pension costs	298	–	–	16	314	318
Other staff costs	15	–	–	–	15	28
Total	2,069	183	120	172	2,544	2,587

6. Property and equipment

	2017/18 £'000	2017/18 £'000	2017/18 £'000
	Information technology	Furniture, fixtures & fittings	Total
Cost			
At 1 April 2017	85	137	222
Additions	–	–	–
Disposals	–	–	–
At 31 March 2018	85	137	222
Depreciation			
At 1 April 2017	41	111	152
Charged in year	17	14	31
Disposals	–	–	–
At 31 March 2018	58	125	183
Carrying amount at 31 March 2018	27	12	39
Carrying amount at 31 March 2017	44	26	70

	2016/17 £'000	2016/17 £'000	2016/17 £'000
	Information technology	Furniture, fixtures & fittings	Total
Cost			
At 1 April 2016	85	137	222
Additions	–	–	–
Disposals	–	–	–
At 31 March 2017	85	137	222
Depreciation			
At 1 April 2016	24	96	120
Charged in year	17	15	32
Disposals	–	–	–
At 31 March 2017	41	111	152
Carrying amount at 31 March 2017	44	26	70
Carrying amount at 31 March 2016	61	41	102

7. Intangible assets

Software licences	
	2017/18 £'000

Cost	
At 1 April 2017	36
Additions	–
Disposals	–
At 31 March 2018	36

Amortisation	
At 1 April 2017	16
Charged in year	7
Disposals	–
At 31 March 2018	23

Carrying amount at 31 March 2018	13
Carrying amount at 31 March 2017	20

Software licences	
	2016/17 £'000

Cost	
At 1 April 2016	36
Additions	–
Disposals	–
At 31 March 2017	36

Amortisation	
At 1 April 2016	9
Charged in year	7
Disposals	–
At 31 March 2017	16

Carrying amount at 31 March 2017	20
Carrying amount at 31 March 2016	27

8. Financial instruments

The LSB is party to financial instrument arrangements as part of its normal operations. These financial instruments include bank accounts, receivables and payables.

IFRS 7: 'Financial Instruments: Disclosures', requires disclosure of the role that financial instruments have had during the year in creating or changing risks an entity faces in the course of its operations. As a levy funded body which collects all of the levy imposed on ARs within a short time frame (less than 30 days), the LSB is not exposed to the same degree of financial, credit or liquidity risk faced by typical commercial entities. The LSB has no powers to borrow or invest surplus funds. Its financial assets and liabilities which arise from normal operating activities are not held to manage risks arising from these activities. Consequently the LSB is not exposed to significant liquidity, credit, interest rate or foreign currency risk.

a) Carrying amount and fair values

The fair value of cash balances approximates their carrying amount largely owing to the short-term maturity of this financial instrument which is less than three months.

The fair values of receivables and payables approximate their carrying amount at initial recognition and these assets are not revalued subsequent to initial recognition as they are simple instruments with short-term maturities.

b) Liquidity risk

Liquidity risk is the risk that the LSB will encounter difficulty raising liquid funds to meet its commitments as they fall due. Through effective budgetary planning and controls, the LSB's operational expenditure corresponds to the amount it collects in levies from ARs.

Additionally, the LSB has built up surplus funds from Grants in Aid received in earlier years of operation to cater for adverse timing differences between payment of liabilities as they fall due and collection of levies imposed on ARs. Consequently, it does not have significant liquidity risk.

c) Credit risk

Credit risk is the risk that a third party will default on its obligation to the LSB, thereby causing it to incur a loss. Credit risk arises from deposits with banks and receivables. The maximum exposure to credit risk at the balance sheet date is:

	2017/18 £'000	2016/17 £'000
Cash at bank	6,905	7,015
Trade receivables	3	–
Total	6,908	7,015

Cash at bank comprises liquid bank balances held with a commercial bank in a Government Banking Service account. Cash balances are maintained with strong investment grade banks. The LSB has not recorded impairments against cash balances and nor have any recoverability issues been identified with such balances.

9. Trade and other receivables

Amounts falling due within one year		
	2017/18 £'000	2016/17 £'000
Levy income receivable	3	–
Prepayments	33	36
Deposits and advances	4	10
Total trade and other receivables	40	46

10. Cash and cash equivalents

	2017/18 £'000	2016/17 £'000
Cash and cash equivalents recorded in the SoFP and Statement of Cash Flows include deposits held at call with banks representing short-term highly liquid investments with maturities of less than three months.		
Balance at 1 April	7,015	7,081
Net change in cash and cash equivalent balances	(110)	(66)
Balance at 31 March	6,905	7,015
Balances at 31 March were held at:		
Government Banking Service	6,905	7,015

11. Trade and other payables

Amounts falling due within one year		
	2017/18 £'000	2016/17 £'000
Trade payables		
– External	13	81
Payroll tax and social security	80	79
Statutory audit fee	20	20
Deferred income	383	473
Employee leave accrual	23	30
Accruals	111	101
Total trade and other payables	630	784

12. Capital commitments

There are no capital commitments.

13. Commitments under leases

Operating leases		
	2017/18 £'000	2016/17 £'000
Buildings		
Not later than one year	165	165
Later than one year and not later than five years	121	286

The LSB signed a *Crown Estate Occupancy Agreement (CEOA)* with the Office of Rail and Road in September 2013 and moved to One Kemble Street at the beginning of January 2014. The licence fee to occupy part of the third floor is billed quarterly.

14. Contingent assets/liabilities

There are no contingent assets or liabilities to report.

15. Related party transactions

The LSB is a non-departmental public body (NDPB) sponsored by the 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 shown in the Statement of Taxpayers' Equity.

The LSB has had a small number of transactions with other government departments and other central government bodies.

The LSB has a direct relationship with the OLC and has some oversight responsibilities for the Ombudsman Scheme established by the OLC. Under the Legal Services Act 2007, the LSB is responsible for appointing OLC Board members and paying their salaries and expenses which amounted to £128k for 2017/18 (2016/17 - £129k). During 2017/18 OLC Board members were paid fees of £112k (2016/17 - £112k).

There were no other material transactions with the OLC during the year or with any of the members of the OLC.

During the year there were no related party transactions with LSB members, Legal Services Consumer Panel members or key managerial staff, except for remuneration paid for their services and reimbursement of business travel and subsistence expenses.

16. Events after the reporting period

In accordance with IAS 10: *Events After the Reporting Period*, post Statement of Financial Position events are considered up to the date on which the accounts are authorised for issue. The date the accounts are authorised for issue is interpreted as the same date the accounts are certified by the Comptroller and Auditor General.

There are no significant events after the reporting period to report.



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