

**For consultation:
draft Business Plan 2016/17**

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Chairman's Foreword



I was asked recently “what exactly does the Legal Services Board do?” My answer was clear: the LSB acts as an agent for change, it drives regulators to modernise, deregulate and holds them to account. As this draft Plan explains, we intend to pursue rigorously a modern and efficient legal services sector: one that better meets the needs of consumers, citizens and practitioners.

We will do this as cost effectively as possible. Since the LSB was established on 1 January 2009, we have reduced our running costs in real terms every single year. 2016/17 will be no exception. We propose to reduce our budget by a further £150k in cash terms from £4,298k in 2015/16 to £4,148k in 2016/17, subject to the Lord Chancellor’s approval. We also intend to reduce our operating costs by a further £450k by the end of this Parliament – a 15% reduction in total. This is a challenging target in line with the commitments made across Whitehall. It is the right thing to do. It reflects the progress we are making in delivering a legal services sector which is fit for purpose.

This document seeks your views on our draft Business Plan for 2016/17, the second year of our three-year Strategy. There is strong continuity. At the heart of our work remains our statutory duty to consider regulators’ changes to their regulatory arrangements. The value and importance of this work cannot be overstated: through this we see how regulators are responding to our drive to reduce regulatory burdens and costs as well as responding to changing market conditions. In 2016/17, regulators will respond to our findings on their performance and on their approach to transparency of regulatory costs.

There is much more that we could have included in this draft Plan. Indeed, I am struck by the number and variety of initiatives those operating in the sector would like the LSB to undertake. We have focused on priority issues where our work can deliver most impact for competition, growth and innovation.

We have also been careful to make sure we have the capacity to respond to the range of external initiatives that will help shape this sector. We look forward to the government’s forthcoming consultation on removing barriers to entry for alternative business models in legal services, and on making legal service regulators independent from their representative bodies.

Similarly, the Competition and Markets Authority (CMA) recently announced they would be undertaking a market study into the legal services sector. We expect their result will help us to understand better what should be done to unlock growth, increase productivity and address unmet demand.

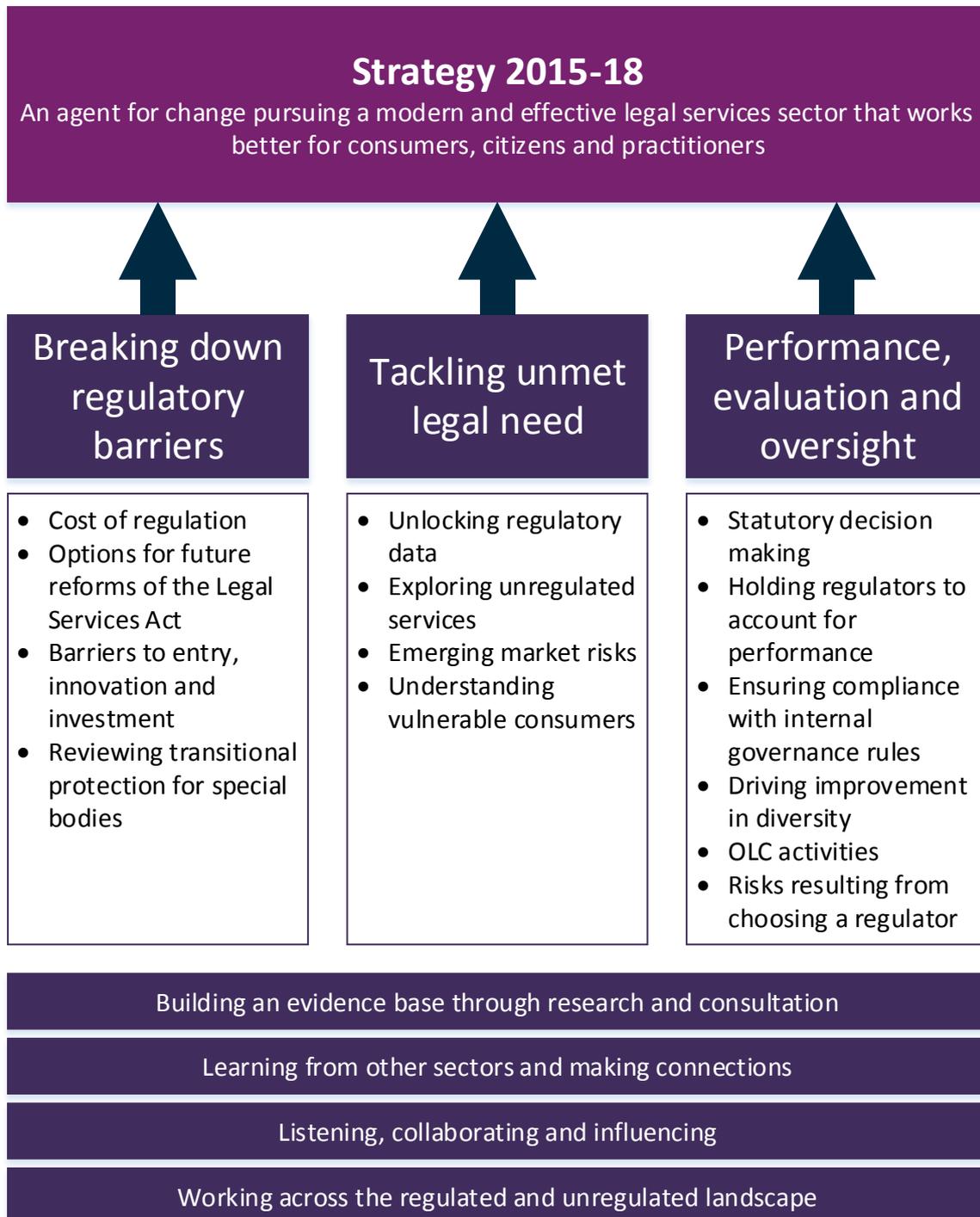
These reviews will all rely on robust and reliable evidence. This remains one of the LSB's most important contributions to the legal services sector. More needs to be done by all the legal regulators to understand this market. The LSB will continue to fund essential research and analysis, targeted at those areas which will have the greatest impact for consumers.

Please tell us what you think.

A handwritten signature in blue ink, appearing to read "Michael Pitt". The signature is stylized and written in a cursive-like font.

Sir Michael Pitt
Chairman

Summary of plan



Our role

Who we are

1. The LSB is the independent body that **oversees the regulation of legal services** in England and Wales.

What we do

2. We **hold to account** regulators for the different branches of the legal profession. We **drive change** in pursuit of a modern and effective legal services sector: one that better meets the needs of consumers, citizens and practitioners.

Why our work matters

3. Legal services underpin our civil society, our economy and our democracy. This makes our work relevant to every citizen and every business. Our role delivers three important benefits:
 - **Benefits for public confidence in legal services regulation** – our oversight of the regulators helps to command public confidence that the regulation of legal services is not compromised by representative interests and that the public interest (for example, in the rule of law) is protected.
 - **Benefits for consumers** – our market intelligence across all aspects of the legal services sector enables us to identify areas of unmet need and generate fresh thinking on new ways of tackling this and other issues in the sector.
 - **Benefits for providers and the economy** – by forcing the pace on deregulation and removing unnecessary barriers we can offer more scope for new providers to start up and for existing providers to grow and innovate, bringing choice, new services and better value for money to consumers.

What we want to achieve

4. Our vision is a legal services market characterised by:
 - Consumers who are well informed and able to choose from a range of services that are of appropriate quality and value for money.
 - Vibrant, diverse and professional legal service providers, who compete and innovate to offer services that collectively support wider public interest objectives including the rule of law and access to justice for all.
 - Prompt and effective redress for consumers when things go wrong.
 - A regulatory framework that commands the confidence of consumers, the public and all those with an interest in legal services.

How we work

5. We are guided by the regulatory objectives agreed by Parliament in the Legal Services Act 2007 (the Act). Our work balances these objectives.
6. We take into account the government's better regulation principles and aim to be transparent, accountable, proportionate, consistent and targeted in all our activities. We also have regard to our obligations outside the Act. These include the Regulators' Code and our statutory equality responsibilities.¹

How we work

- 1 We maintain an evidence-based, outcomes-focused approach, and steer regulators on where best to focus their efforts.
- 2 We work with regulators in a relationship of openness and trust. We:
 - drive improvements in regulatory performance, through robust analysis of data and intelligence, by ourselves and the regulators
 - encourage improvements mindful of the need to balance consistency of approach against a proportionate response to the nature of different risks
 - seek to maintain a sense of urgency in bringing about change while managing risk.
- 3 We sustain productive working relationships with people and organisations both within and outside the sector who can contribute constructively to our work.
- 4 We respond swiftly and flexibly to emerging issues and risks to the regulatory objectives, including altering our priorities as necessary and seeking to improve our performance.
- 5 We use our enforcement powers proportionately and as necessary.
- 6 We maximise our resources, ever alert to obtaining the best value possible from the levy paid to us by the approved regulators.
- 7 We take into account the geographic diversity of legal needs across England and Wales, including emerging differences between English and Welsh law.
- 8 We share knowledge with other oversight regulators, such as the Financial Reporting Council and the Professional Standards Authority for Health and Social Care.

¹ http://www.legalservicesboard.org.uk/about_us/our_staff/equality_and_diversity/index.htm

7. We are funded by, but wholly independent of, the approved regulators of the legal profession. In 2016/17, we will reduce our budget in cash terms by £150,000 from 2015/16. The cost to each person authorised to undertake reserved legal activities and holding a practising certificate has reduced from over £34 in 2009/10 to less than £23 in 2015/16 (32% reduction) and this will continue on a downward trajectory.
8. The regulators are responsible for devising, developing and implementing regulation of legal services in England and Wales. The LSB makes sure that they meet this responsibility so as to promote the regulatory objectives and the new duty to have regard to economic growth.
9. We make sure that the regulators have the competence, capability and capacity to promote and adhere to the regulatory objectives and undertake regulation independently from representative interests in the legal sector.

Strategic context for 2016/17

10. In March last year we published our Strategy for 2015-18 and described the three strategic outcomes we would be working towards over the three-year period.



11. In preparing our draft 2016/17 business plan, we considered whether any changes were needed to these three themes in light of developments in our operating environment this last year. Some of these have been particularly significant. We considered:

- **market context**, including:
 - joint LSB and Solicitors Regulation Authority (SRA) research showing that Alternative Business Structures (ABS) are the most innovative type of regulated law firm and that unregulated providers are the most innovative overall
 - joint LSB and the Legal Services Consumer Panel (LSCP) research into “unbundled” legal services, in which a package of legal services is separated into parts and the work shared between the consumer and lawyer. The research found that law firms were beginning to respond to consumer demand and changes in their commercial environment by developing affordable alternatives to full-service representation
 - LSB research showing little improvement over recent years in perceptions about the cost-effectiveness of lawyers amongst small and medium sized enterprises (SMEs).
- **political developments**, including:
 - the election of a new government with a focus on removing unnecessary regulation and reducing regulatory costs
 - concerns expressed by the Lord Chancellor about what he called “the two nations” in the justice system, a “wealthy international class who can...choose to settle cases in London with the gold standard of British justice” and “everyone else, who has to put up with a creaking, outdated

system". He noted an urgent need to reform both criminal and civil courts and processes in the interests of a "one nation" justice policy

- the commitment by the Lord Chancellor to a review of the Act within the lifetime of the current Parliament
- the launch of a government consultation on measures to preserve and enhance the quality of criminal advocacy, to sit alongside the Quality Assurance Scheme for Advocates (QASA)
- the announcement by government that by spring 2016 it would launch a consultation on removing barriers to entry for alternative business models in legal services, and on making legal service regulators independent from their representative bodies.

- **broader regulatory and market developments**, including:

- the on-going implementation of the QASA after the Supreme Court, in June, dismissed the appeal against the High Court's decision to dismiss the judicial review of the scheme brought by members of the criminal Bar
- the publication by the LSB of a paper exploring options for reform of the Act, which was the product of LSB-facilitated cross-regulator discussions
- a number of significant changes to regulatory arrangements
- the announcement by the CMA of a market study into the supply of legal services in England and Wales.

12. These research findings and the evidence of a growing drive to secure improvements to the regulatory framework reinforce our view that the LSB's Strategy is the right one. Evidence is emerging of improvements in outcomes for consumers – and we will consider these in our market evaluation research in spring 2016. Government interest in reform holds out the prospect of significant improvements in the regulatory framework in the interests of consumers.

13. It is clear, however, that there is still much more to be done to secure a well-functioning and competitive legal services sector. Our work continues to be focused on this outcome.

What we will do in 2016/17

14. Our work programme represents year two of a three year strategy and so there is significant continuity from our work in 2015/16. It has been designed to make sure we:

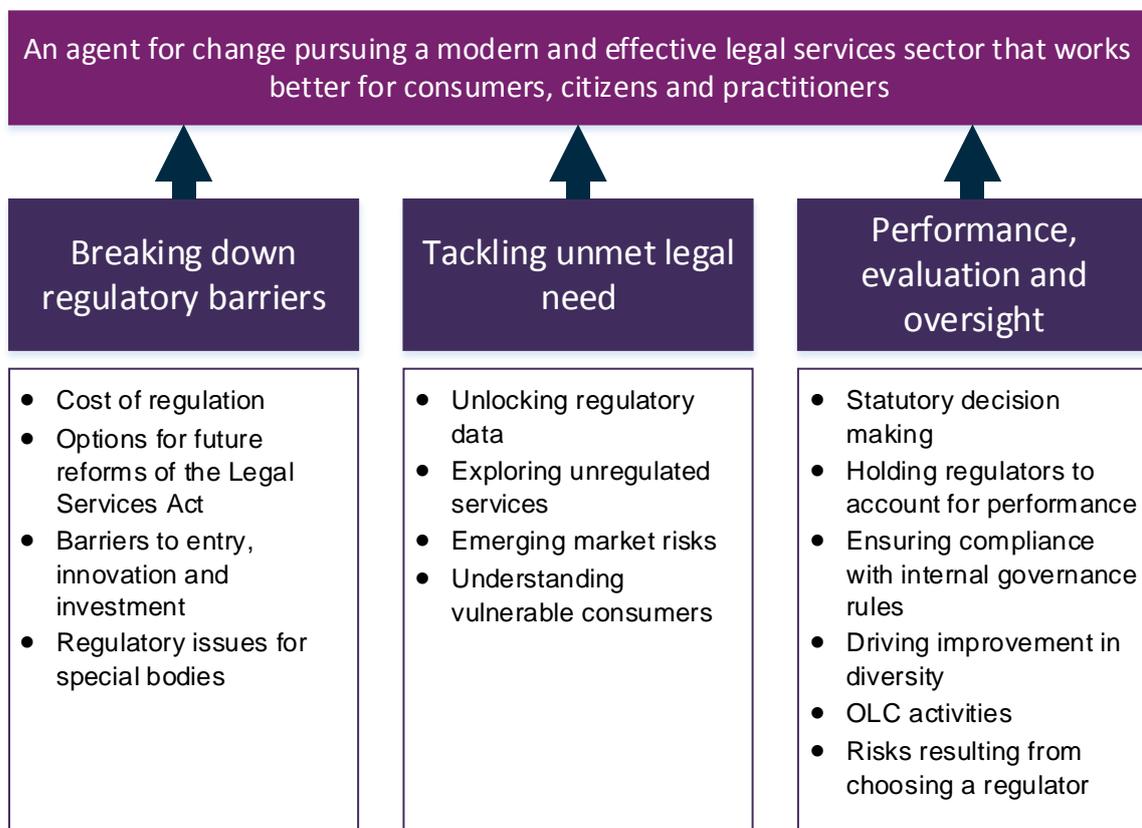
- **hold regulators to account** for their performance, including their independence
- **drive reform** of regulation so that the legal services sector can better meet the needs of consumers, citizens and practitioners.

15. At the heart of our programme are our statutory responsibilities:

- to approve regulators' requests for approval of changes to regulatory arrangements
- to assess new and existing regulators' requests to become designated to regulate one or more of the reserved legal activities or to become a licensing authority for ABS.

Our scrutiny of these often market-changing applications, alongside our analysis of the level of practicing certificate fees (PCF) charged, is an essential public interest function.

16. We are committed to using our position as the oversight regulator to identify where regulators are able to improve market conditions, particularly for vulnerable consumers or where there are entry barriers preventing new providers from offering innovative services.



1 Breaking down the regulatory barriers to competition, innovation and growth

Why this work matters

17. Breaking down regulatory barriers and reducing the regulatory burden are both vital components of deregulation. We need both if we are to facilitate competition, growth and innovation, each of which will deliver benefits for consumers and for the wider economy.
18. Increasingly the market is moving away from traditional legal services structures defined by title, partnerships and Chambers. Consumers are increasingly demanding joined up legal and non-legal services tailored to their needs. Service delivery and regulation must not assume one size fits all.
19. Regulators must make sure that regulation does not hinder market developments or restrict innovation.

Breaking down regulatory barriers

- In 2016/17 we will:**
- **improve scrutiny of regulatory costs and identify opportunities for savings**
 - **identify ways in which legislation needs to change to keep pace with the development of a modern, vibrant, diverse, high quality legal services sector**
 - **make sure that regulation does not unnecessarily deter entry, innovation and investment**
 - **review transitional protections for special bodies.**



- If successful we will see:**
- more choice for consumers and less unmet need
 - a greater range of business models in this sector, with increasingly diverse service provision and an increased ability for service providers to be agile and respond to changing patterns of demand
 - a smaller number of streamlined and simplified regulatory arrangements.

Improving scrutiny of regulatory costs and identifying opportunities for savings

20. In 2015/16, we examined the cost of legal services regulation and its impact on regulated legal services providers. Our emerging conclusions are that the regulators need to improve their published data. Unclear and incomplete data prevents effective benchmarking and hinders efforts to identify potential cost reductions.
21. In 2016/17, we will report on the information regulators publish about their costs and ask the regulators to improve the quality and transparency of data. This will allow the LSB (and providers) to have the right information to challenge inappropriate regulatory costs. We will also look at how regulators treat any underspend of the PCF they collect, including analysis of the distinction between money raised for regulatory and non-regulatory activities. Improvements are needed in this area in the interests of better regulation.

Identifying ways in which legislation needs to change to keep pace with the development of a modern, vibrant, diverse, high quality legal services sector

22. Since July 2014, the LSB has worked alongside the legal services regulators to identify options for deregulation. As the oversight regulator, the LSB has considered the merits of more radical options for reform of the Act. Momentum in this area has increased in light of the recent government announcement of a consultation by spring 2016 on “removing barriers to entry for alternative business models in legal services and on making legal services regulators independent from their representative bodies”. The Lord Chancellor has also confirmed to the Justice Select Committee that his department will review the Act during the lifetime of this Parliament. Additionally, the recently announced CMA market study into the supply of legal services in England and Wales, will also be considering whether regulation weakens or distorts competition for the supply of legal services.
23. In 2016/17, the LSB will work with Professor Stephen Mayson to develop our own vision of an effective and “fit for purpose” future legislative framework to support the government’s review of the Act. This work will include the development of a risk-based rationale for regulation. The LSB will also engage with and share our knowledge with the CMA as it undertakes its market study.

Making sure that regulation does not unnecessarily deter entry, innovation and investment

24. LSB research has found that ABS firms are 13 – 15% more likely to introduce service innovation than traditional legal services firms. It is now five years after the first ABS licences were granted. There are four authorities licensing in excess of 500 ABS. We remain alert to any barriers standing in the way of new market entrants, potential investors or to businesses wanting to innovate.

25. In 2016/17, we will analyse investment in the legal sector. We will identify current sources of capital and establish how the investor community views the market and any barriers to investment.

Reviewing transitional protections for special bodies

26. “Special bodies”, such as not for profit bodies, community interest companies and independent trade unions are allowed to conduct reserved legal activities without authorisation by an approved regulator by virtue of transitional protections in the Act. They are important providers of legal services as they provide a first port of call for many consumers seeking support.

27. In 2016/17, we will review whether there are any licensing authorities with arrangements suitable for authorising special bodies as ABS before concluding whether or not to recommend the ending of transitional protections. We will update our research on whether there are any risks to the regulatory objectives posed by these bodies.

2

Enabling the need for legal services to be met more effectively

Why this work matters

28. Markets work best when consumers have choice and can exercise that choice confidently. Whilst segments of the legal services sector are highly competitive, there remain areas where consumers are unable to exercise any real choice. This may be due to the complexity of the services offered, or an inability to compare or access the service they need. In some areas these barriers are such that there remains a significant gap between legal needs and the use of legal services.
29. Individuals and businesses need to be able to meet their legal needs conveniently, affordably and effectively. Otherwise there is a risk that they will not be able to exercise their rights under the law.
30. For regulators to help mitigate that risk they need an understanding of:
- the range of options available – including regulated and unregulated legal services, self-provision and the way these may interact
 - affordability –not only the price of legal services but also how consumers make trade-offs when deciding how to spend money
 - accessibility – including the extent to which consumers are put off by the complexity of the system and whether there are barriers which are especially acute for vulnerable consumers.

Tackling unmet legal need

In 2016/17 we will:

- **encourage market entry by comparison websites by unlocking regulatory data and helping consumers choose and use legal services**
- **identify the reach, benefits and risks of unregulated services**
- **respond to emerging market risks**
- **understand how vulnerable consumers access legal services.**



If successful we will see:

- improvements in the extent to which need for legal services is met
- an increase in our – and the sector’s – understanding of the legal services landscape, the consumer’s journey through it and where our resources can be targeted to have the biggest impact
- appropriate protections for consumers and the public interest secured in a rapidly changing market.

Encouraging market entry by comparison websites by unlocking regulatory data and helping consumers choose and use legal services

31. Consumers need reliable information to help them compare legal services before they can decide which to buy. LSB and the LSCP have both championed the publication of regulatory data and encouraged comparison websites to consider entering the legal services sector.
32. In 2016/17, we will work with market intermediaries to understand whether there are barriers, regulatory or otherwise, preventing them from entering the legal services sector. Based on advice from the LSCP, we will challenge regulators to unlock additional regulatory data to improve the choice environment for consumers.

LSB request for advice from the LSCP

To inform our work on use of regulatory data, we will ask the LSCP to provide advice on the effectiveness of current information remedies in legal services regulation and how these could be improved. This advice will also be of benefit to regulators who are considering information remedies and will help us when we assess rule change applications of this type.

Identifying the reach, benefits and risks of unregulated services

33. There is a growing awareness of the significant minority of legal services consumers choosing to use services that are unregulated under the Act. Whilst consumers may be making rational and informed choices, there are consequences, for instance, lack of access to redress from the Legal Ombudsman should things go wrong. The LSB has begun mapping the unregulated sector.
34. In 2016/17, we will explore measures to enhance consumer protection for those using unregulated providers. These may include use of our powers under section 163 of the Act to assist in the development of voluntary arrangements or, working with the Legal Ombudsman as necessary, exploring the scope for redress to cover unregulated legal services.

Responding to emerging market risks

35. The legal services market is evolving. More commercially minded providers and new forms of service delivery and pricing options are emerging. Consumers are increasingly looking for ways to meet their legal needs alone or with only minimal support from a lawyer. Technological innovation is often a driver, with developments such as automated document services, question and answer portals and online dispute resolution services. These can all help bridge the advice gap by meeting consumer needs at lower cost.

36. As the legal services market develops, so too does the potential for new forms of consumer risk, for example, around quality and misuse of personal information. For regulators more used to regulating professional misconduct rather than trading behaviour they will need to consider carefully whether their existing supervision and enforcement mechanisms are sufficiently agile to deal with these emerging risks.
37. In 2016/17, we will work with regulators to consider these trading behaviour risks and whether they could emerge in legal services. In light of this work we will challenge the regulators to make sure they have the knowledge, skills and relationships they need to prevent and respond to consumer detriment. To inform this work, we will research consumer and provider attitudes to the digital delivery of legal services.

Understanding how vulnerable consumers access legal services

38. A range of individual risk factors, including physical and mental ability, language skills, financial constraints, or other personal characteristics, can result in consumers not receiving the legal services they need. The actions of providers can increase this vulnerability. These risks can be particularly acute in legal services where people often need legal help specifically because of their personal characteristics, for instance, in mental health law.
39. In 2016/17, we will commission research to evidence the experiences of consumers in a range of vulnerable circumstances with different legal services providers. Our findings will help regulators and professional bodies to identify areas of highest risk and to identify and respond to consumer vulnerability.

3

Performance, evaluation and oversight

Why this work matters

40. Effective regulation and complaints resolution help promote consumer and public interests, the continuing health of the legal services sector and contribute to a vibrant economy. Our responsibility to oversee standards of regulatory and complaint resolution performance are our most visible and demanding responsibilities. It is our duty to make sure these essential foundations are right, thereby creating confidence in the legal sector.
41. Our ongoing statutory activities require us to work with all of the organisations with whom we have a statutory relationship to hold them to account. We also need to understand the real-world challenges they face, and the demands of their regulated communities. In the case of bodies whose budgets or PCF we approve, we need to understand their performance and improvement plans. We also need to remain vigilant about the regulators' independence from the professions they regulate, which is vital to public confidence. All regulators also need to be agile in addressing the changing risk environment.
42. Our crosscutting research helps us to understand change in the sector and our own (and the regulators') impact. Amongst other things, it shines a light on the way people think about solving their legal problems and how they choose and pay for services. We feed this evidence directly into our policy and decision making.

Performance, evaluation and oversight

Work programme 2016/17 in this area:

- **statutory decision making**
- **holding the regulators to account for their performance**
- **making sure regulation is undertaken independently from representative interests**
- **diversity – the role of regulators in driving improvement**
- **undertaking our statutory responsibilities in relation to the Office for Legal Complaints (OLC)**
- **identifying the benefits and risks associated with regulatory choice and the changing shape of legal services regulation.**



If successful we will see:

- regulators, acting independently, developing their own strategic thinking and building their capacity to deal with new risks, including those arising from increased competition and new service channels such as digital delivery
- regulators increasing their understanding of consumers and the impact of changes in the legal services market and our and the regulators' impact
- an improving contribution by the Legal Ombudsman to the legal profession, regulators and consumers.

Our core deliverable: discharging our statutory duties

Approving requests for changes to regulatory arrangements

43. We continue to encourage regulators to become more outcomes focused and to keep regulatory burdens to a minimum through this work.
44. In 2016/7, the Council for Licensed Conveyancers (CLC), the SRA, and the Bar Standards Board (BSB) are all planning wide ranging reviews of their Handbooks and Codes and we will work with them so that the approval process does not hinder their plans. In addition to these major reviews we will continue to handle individual applications, including those in respect of QASA.
45. We will implement changes to our rule change approval process to make sure that it supports the regulators as they review and revise their regulatory arrangements.

Designating new regulators

46. Designations allows new firms to enter the market and existing firms to expand the services that they offer and thus improve choices for consumers. We expect to receive designation applications from the Institute of Chartered Accountants for England and Wales (ICAEW), which is looking to build on its experience of regulating probate by expanding the range of reserved legal activities its members can offer. The Chartered Institute of Legal Executives (CILEx) Regulation also intend to submit an application seeking designation as a licensing authority.

Approving practising certificate fees

47. Building on the work we have completed on the cost of regulation we will look to increase transparency so that those that are required to pay a PCF can see how that money is spent. We will implement any changes that emerge from the review of the PCF approval process that is due to report early in 2016.

Holding the regulators to account for their performance

48. Our regulatory standards work is key to assessing regulators' performance. It is through this work that we challenge them to become more effective and efficient. In 2015/16, we completed our second assessment of the regulators' performance against the regulatory standards framework.
49. In 2016/17, we will be holding regulators to account for their performance against those standards where we have identified there is scope for improvement.
50. We will also review whether the current process provides sufficient assurance about how the regulators are performing. We will examine the extent to which our existing review processes operate in a risk-based, proportionate and targeted way and whether they are clearly linked to the regulatory objectives and the better regulation principles. This will inform our approach to the next full assessment round, aiming for a process which is robust in its assessment of regulatory performance whilst at the same time keeping burdens on regulators to the absolute minimum.

Making sure regulation is undertaken independently from representative interests

51. Ongoing compliance with our internal governance rules is a constant consideration in all of our work and this will continue. Given the diverse nature of the approved regulators' structures and the challenges that they face, we consider the most proportionate approach is to deal with issues as they arise.

Diversity – the role of regulators in driving improvement

52. We share with the legal services regulators a regulatory objective to encourage an independent, strong, diverse and effective legal profession. Increased diversity, and increased understanding of a wider variety of consumer needs, is more likely to lead to innovative and targeted service provision for currently under-represented groups. This will help increase access to justice, improve choice and enhance the consumer experience.

53. As a result of work completed in 2015/16 we will soon have a greater understanding of how the regulators are using the diversity data they collect in their regulatory activities. This work will inform our approach in assessing regulators' performance in future years. Our work in 2015/16 will also highlight good practice in the use of diversity data both in legal services and in other sectors.

54. In 2016/17, we will continue to champion the contribution that regulators can make to increasing diversity. The LSB will explore whether there is a need to give specific focus to particular aspects of regulatory policy, such as education and training, which play a key role in delivering progress in this area.

Undertaking our statutory responsibilities in relation to the OLC

55. The Legal Ombudsman scheme has a vital role in the legal services market, providing redress for consumers when things go wrong. It should contribute to giving consumers confidence to use regulated legal services in the knowledge that an independent, fair and effective route to redress is available where service falls short. We must be assured that the OLC administers the Legal Ombudsman scheme appropriately. This is an active and ongoing responsibility involving regular contact including quarterly meetings between members of the LSB and OLC Board. Those meetings allow the LSB to review the way in which the OLC is overseeing performance and ongoing work with the OLC and Legal Ombudsman.

56. In 2015/16, the LSB used its statutory powers under the Act to set performance targets for the OLC for the first time. We also required the OLC to produce a report on proposals for a new performance framework to be operational from 1 April 2016. In 2016/17, we will continue to hold the OLC to account to make sure that it administers a Legal Ombudsman scheme that is efficient, high quality and delivered at an appropriate cost. It must meet the needs of both consumers and be fair to lawyers who are the subject of complaint. We will also continue to encourage effective joint working across the sector so that the information that the Legal Ombudsman holds can inform operational work, policy development and improvements to delivery of legal services.

57. In 2016/17, we will review our governance protocols with the OLC and Ministry of Justice (MoJ). Audit and Risk Assurance Committee Chairs from the LSB and OLC will meet to make sure that any risks are understood and mitigated and that mutual risks are also managed effectively. We will also fulfil our statutory responsibilities to receive the OLC's Annual Report and Accounts, to approve its annual budget and consider any Scheme Rules changes. In partnership with MoJ and OLC we will reflect on any additional measures that need to be put in place to make sure the governance relationship between MoJ, LSB and OLC is operating as effectively as possible.
58. Should OLC decide to apply for approval as an ADR entity, we will deliver our functions as a competent authority, if required, in line with *The Alternative Dispute Resolution for Consumer Disputes (Competent Authorities and Information) Regulations 2015*.

Identifying the benefits and risks associated with regulatory choice and the changing shape of legal services regulation

59. The Act permitted significant developments in how legal services are regulated in England and Wales. The regulatory system in place today is now quite different to that in place at the time the Act was passed. Individual regulators have expanded the scope of legal activities and business models they regulate and, as a consequence, some legal service providers now have a choice of regulator. It is unusual for statutory regulation to offer providers a choice of regulator and there could be concern about 'regulatory arbitrage', that is, scope for providers to play regulators off against each other. Recent LSB thematic reviews have identified some points of difference amongst regulators on specific issues such as sanctions and appeals and insurance options.
60. In 2016/17, we will identify the benefits and risks to the regulatory objectives relating to this development and explore how and where differences in regulation are emerging, for example, in entry to regulation, compliance activities and exit from the regulated market. We will combine case studies and expert views with policy and legal analysis to develop our findings and any recommendations for how we carry out our regulatory functions.
61. This work will support the continual development of our risk-based and proportionate approach to regulatory standards assessment. We will seek to understand and identify any unintended consequences emerging from current developments.

Market Information: research planned for 2016/17

62. The LSB makes a sustained and significant investment in research that provides more evidence about the legal services market. We use the insights from primary research alongside other market information to inform policy development. This work improves the quality and legitimacy of our decision making and should also help inform the decisions of the regulators and others. However, research also makes a positive impact in other ways. For example, new entrants tell us they have used our surveys to attract investors and shape innovative business ideas. We endeavour to extract the most value from this information including making sure they are accessible to a wide range of stakeholders.
63. During 2016/17, we will continue to consult our Research Strategy Group (RSG) which includes leading academics as well as representatives from the regulators and representative bodies, for advice on our research programme. This will allow us to identify gaps in evidence and to help us develop our research plan for the year ahead. The RSG helps inform our understanding of the research plans of approved regulators and others, to avoid duplication. Alongside primary research, we will continue to use our evaluation framework to monitor the impacts of regulation on the legal services market, building on the full market evaluation undertaken during 2015/16.
64. We want to work collaboratively with others to pursue our research agenda. We will seek to build links with new partners, continue to share detailed research plans at the regulators' own Research Forum, and engage directly with the academic community.
65. We will continue to take a pragmatic approach to any opportunities to work with other funders to address longer term research needs.
66. The previous sections identified the research and economic analysis we intend to commission to improve our evidence base and these are summarised in the following table.

LSB research for 2016/17

Title	Description
Breaking down regulatory barriers	
Regulatory issues for special bodies	Updating the 2011 Frontier Economics report on risks to the regulatory objectives posed by special bodies
The investor perspective	Research into the investor perspective including analysis of current sources of investment and investor community perceptions of the legal services market
Tackling unmet legal need	
Vulnerable consumers	A study to establish the experience of consumers in a defined range of vulnerable circumstances
Emerging market risks	Research to explore changing market risks, in particular consumer and provider attitudes to the digital delivery of legal services
Legal Services Consumer Panel commission	
Information remedies	Research on the current effectiveness of information remedies in legal services regulation

Delivering our Business Plan

The costs we incur in delivering our Plan

67. The table below shows our proposed budget for 2016/17, the second year of our three-year Strategy. At this stage, this is an indicative budget only and will be subject to the Lord Chancellor's approval. We have reduced the costs of running the LSB consistently each year since our inception on 1 January 2009 and propose to make further savings of £150k in 2016/17. The cost to each person authorised to undertake reserved legal activities and holding a practising certificate has reduced from over £34 in 2009/10 to less than £23 in 2015/16 (32% reduction) and this continues on a downward trajectory.
68. We intend to reduce our annual operating costs by a further £450k by the end of this Parliament; a £600k saving in total (15%). This is a challenging target, which will mean a refocus of some activities in 2017/18 to 2019/20.
69. We have consistently been clear that our size, what we need to do and how long we need to exist for, depends ultimately on the performance of the approved regulators in delivering regulation that is fit for purpose.
70. Approximately 88% of the planned budget of the LSB is made up of 'fixed' costs in the short term (Board, OLC Board, staffing, accommodation, depreciation and outsourced services). The remaining 12% is accounted for by the costs of the research and evaluation, legal and governance support needed to underpin our work programme for 2016/17.

LSB budget for 2016/17

	Operational budget 2016/17 £000
Staff	2,422
Accommodation	350
Research and evaluation	250
Outsourced services	201
Board	200
Legal Services Consumer Panel	210
Office costs	85
Depreciation	39
Governance and support services	126
Legal reference and support	108
TOTAL excl OLC Board	3,991
OLC Board	157
Total inc OLC Board	4,148

Further information about our costs

71. Pay was subject to the public sector pay-freeze for the LSB's first three years of operation. Since then, the uplift to the pay bill has been capped at 1% and this is due to continue for the duration of this Parliament. We have an approved establishment of 32 posts and operate a matrix style of working, where colleagues move freely from project to project according to the priorities of the organisation. All colleagues make a contribution to our regulatory activities.
72. The largest non-staffing item is for accommodation and services and we remain in a period of formal rent review with the landlord. The LSB has a small team responsible for corporate matters having entered into either shared services or very competitive outsourced services for information and communication technologies (ICT), human resources (HR), facilities, payroll etc. We have two in-house lawyers and access to a panel of general and specialist legal advisors, appointed through a competitive tender process. In line with the aspirations of successive governments, the LSB has sought to use SMEs where it can to provide these services (providing greater value for money and flexibility than offered by the established larger providers). By adopting this approach, we keep in-house staffing requirements to a minimum and have secured commercial services at competitive prices. These arrangements are kept under continuous review.
73. Our research and evaluation programme has provided data and evidence to inform our decision making and has been of benefit not only to approved regulators but has also informed government policy and industry thinking. We have sought to maximise the use of our limited spend in this area through collaboration with approved regulators and other organisations.
74. The Act makes the LSB responsible for appointing and paying members of the OLC and the LSCP and these costs form part of our governance costs.
75. Judicial reviews of LSB decisions are rare and we do not budget for the costs of defending any judicial review actions. However, we successfully defended the judicial review of our approval of the QASA in the High Court, Court of Appeal and the Supreme Court and are due to recover a substantial part of our costs. We expect to be able to reduce the levy on approved regulators in line with the costs we recover.
76. Costs will continue to be recouped through the statutory levy on approved regulators and any underspend will continue be used to reduce the levy for subsequent years. The Board continues to scrutinise the LSB's running costs and seeks to find on-going efficiency savings. This reflects our public commitment to driving efficiency savings and securing value for money in our work.

Risk and information management

77. We are committed to robust risk management across all of our activities whether regulatory or operational and risk is managed at all levels in the organisation.

78. As a knowledge-driven organisation we rely on good corporate knowledge; all of our work is underpinned by the evidence we gather, the information we hold and the decisions we make. This information must be managed well to make sure we make sound decisions and are able to fulfil our statutory obligations under both freedom of information and data protection legislation.

Freedom of Information and Data Protection Act requests

79. We will continue to comply with our statutory responsibilities under data protection and freedom of information legislation and make sure that our internal policies accurately reflect any changes in legislation.

80. We aim to comply with the statutory time limits for each type of request and our average response times are currently well within these limits.

Finance process performance

81. In our annual report and accounts, we report our success at paying all undisputed invoices within 30 days. We have also undertaken to meet the 2008 Cabinet Office Guidance for Departments and we have set a target of paying undisputed invoices within ten days of receipt. We support the Cabinet Office's aspiration to support businesses through ensuring the public sector pays its bills swiftly.

Our statutory performance targets

	Change to regulatory arrangement	New approved regulator designation or additional reserved legal activities	Licensing authority designation	Cancellation of designation for approved regulators*	Cancellation of designation for licensing authorities*
We will publish applications on our website as long as we consider the applications to be complete	Within 2 days	Within 5 days**	Within 5 days**	Within 5 days**	Within 5 days**
We will make a decision or recommendation on the application	Within 28 days for simple applications*** Within 3 months for complex applications***	Within 130 days^	Within 130 days^	Within 65 days	Within 65 days
Where appropriate, we will publish advice from mandatory consultees and any representations on that advice	Within 5 days	Within 5 days	Within 5 days	Within 5 days	Within 5 days
We will publish recommendations to the Lord Chancellor	Within 5 days	Within 5 days	Within 5 days	Within 5 days	Within 5 days
Where appropriate, we will publish our decision; extension; warning; and refusal to consider; Notices on our website	Within 2 days	Within 2 days	Within 2 days	Within 2 days	Within 2 days

Note: All days are working days, except for decisions or recommendations on regulatory arrangements, which are in calendar days.

**This KPI only applies under sections 45(3) and 76(3) of the Legal Services Act 2007 (that is, where the approved regulator applies for cancellation, and therefore, is not as a result of an enforcement process)*

***The applications will be published on our website as long as they are complete. The LSB reserves the right during this period to request further information from the applicant.*

****Paragraph 26 of Part 3 of Schedule 4 to the Legal Services Act 2007 provides for a maximum decision period of 18 months from the date the applicant received a warning notice from the LSB.*

^Paragraph 15 of Part 2 of Schedule 4, and paragraph 13 to part 1 of Schedule 10 of the Legal Services Act 2007 provides for a maximum decision period of 16 months.

Consultation questions

Please find below the consultation questions. We also welcome general views and comments on all aspects of our draft Business Plan.

- 1. Do you have any comments on our proposed work plan?**
(See pages 11 – 21)
- 2. Do you have any comments on the research we have proposed?**
(See pages 22 – 23)
- 3. Do you have any comments on the commission we propose for the Legal Services Consumer Panel?**
(See page 16)
- 4. Do you have any comments on the LSB's budget?**
(See pages 24 – 25)

Our regulatory objectives and the professional principles Annex A

Section 1 of the Legal Services Act 2007 (the Act) sets out a challenging set of regulatory objectives for the Legal Services Board, approved regulators and Office for Legal Complaints. These are to:

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

Section 1 of the Act further defines the professional principles 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 and
- keeping clients' affairs confidential.

Section 4 of the Act also gives the LSB a duty to assist in the maintenance and development of standards of regulatory practice and the education and training of lawyers.

Approved regulators

Annex B

Approved regulator	Regulatory body	Reserved Activities	Licensing Authority	No. of authorised persons***
Law Society	Solicitors Regulation Authority	The exercise of a right of audience The conduct of litigation Reserved instrument activities Probate activities The administration of oaths	YES	142,109
General Council of the Bar	Bar Standards Board	The exercise of a right of audience The conduct of litigation Reserved instrument activities Probate activities The administration of oaths	Application for designation with LSB	15,237
Chartered Institute of Legal Executives	CILEx Regulation	The exercise of a right of audience The administration of oaths The conduct of litigation	NO	7,848
Chartered Institute of Patent Attorneys	Intellectual Property Regulation Board	The exercise of a right of audience The conduct of litigation Reserved instrument activities The administration of oaths	YES	2,060 (includes 291 dual registered)
Institute of Trademark Attorneys			YES	872 (includes 291 dual registered)
Council for Licensed Conveyancers		Reserved instrument activities Probate activities The administration of oaths	YES	1,262
Faculty Office		Reserved instrument activities Probate activities The administration of oaths Notarial activities	NO	794
Association of Costs Lawyers	Cost Lawyers Standards Board	The exercise of a right of audience The conduct of litigation The administration of oaths	NO	598
Institute of Chartered Accountants in England and Wales (ICAEW)**		Probate activities	YES	92
Institute of Chartered Accountants of Scotland (ICAS)*		Probate activities	NO	N/A
Association of Chartered Certified Accountants (ACCA)*		Probate activities	NO	N/A

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

** The Institute of Chartered Accountants in England and Wales intends to apply to become an approved regulatory and licensing authority for reserved legal activities relating to taxation matters in 2016.

*** Figures show number of persons authorised by each regulator to undertake one or more legal activity as at 1 April 2015.

How to respond

We welcome views and comments on all aspects of our draft Business Plan by 6pm on **Friday 19 February 2015**.

We would prefer to receive responses electronically (in MS Word format), but hard copy responses by post or fax are also welcome.

Responses should be sent to:

Email: consultations@legalservicesboard.org.uk

Post:

Karen Afriyie
Legal Services Board
One Kemble Street
London
WC2B 4AN

Fax: 020 7271 0051

We intend to publish all responses to this consultation on our website unless a respondent explicitly requests that a specific part of the response, or its entirety, should be kept confidential. We will record the identity of the respondent and the fact that they have submitted a confidential response in our summary of responses.

If you want to discuss any aspect of this consultation, or need advice on how to respond, please contact the LSB by telephone (020 7271 0050) or by one of the methods described above.

We will consider all responses to this consultation and will publish the final Business Plan for 2016/17 in March 2016.

Complaints

Complaints or queries about the LSB's consultation process should be directed to Jenny Hart, Consultation Co-ordinator, at the following address:

Jenny Hart
Legal Services Board
One Kemble Street
London
WC2B 4AN

Or by email to: consultations@legalservicesboard.org.uk