



LEGAL SERVICES
BOARD

Legal Services Board

Annual Report and Accounts for
the Year Ended **31 March 2015**

Legal Services Board

Annual Report and Accounts for the Year Ended 31 March 2015

Presented to Parliament pursuant to Section 6 (4) of the Legal Services Act 2007 and
Accounts presented to Parliament pursuant to Schedule 1, Paragraph 25 (5) of the Legal
Services Act 2007

Ordered by the House of Commons to be printed on 9 June 2015

© Legal Services Board (2015)

The text of this document (but not the LSB logo) may be reproduced free of charge in any format or medium provided that it is reproduced accurately and not in a misleading context.

The material must be acknowledged as Legal Services Board copyright and the document title specified. Where third party material has been identified, permission for the respective copyright holder must be sought.

Any enquiries regarding this publication should be sent to us at Legal Services Board. One Kemble Street, London, WC2B 4AN.

You can download this publication from www.legalservicesboard.org.uk.

Print ISBN 9781474119276

Web ISBN 9781474119283

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

ID 19051511 06/15

Printed on paper containing 75% recycled fibre content minimum.

Contents

Section A

1. Introduction from the Chairman	4
2. Highlights of the year	8
3. About us	10
4. Our activities in 2014/15	14
Work stream A: Regulatory performance and oversight	14
Work stream B: Strategy development and research	18
Work stream C: Statutory decision making	22
Summary of research activity in 2014/15	24

Section B

Financial Statements of the Legal Services Board	26
--	----

1

Introduction from the Chairman



This is the seventh annual report of the Legal Services Board, but my first introduction as Chairman.

The Legal Services Act has delivered change (profound change some might say) in the way legal services have been delivered since it was debated and approved by both Houses of Parliament in 2007. Much has happened since then in legal services and the LSB has been at the heart of this.

Helping to navigate legal services through a changing environment

The role of the LSB is to hold to account the various regulators of the legal profession in England and Wales. The LSB also encourages change in the legal services market where this is in the consumer and public interest.

We have seen incremental and important changes take place, which contain within them the genesis of a significant reshaping of the operation and delivery of legal services in England and Wales.

In short, the LSB has helped stimulate innovation, encourage new entrants and inward investment into the sector, and welcome new forms of practice by existing providers. We have driven modernisation of regulation including the facilitation of independence from representative interests and adoption of better regulation principles. We have focused on the future needs of the sector and helped generate improved outcomes for individual and small business consumers.

A good example of innovative thinking and behaviour is the extension of the powers to regulate and license reserved legal activities beyond the traditional boundaries of the legal world. In a significant step, the Institute of Chartered Accountants in England and Wales (ICAEW) has been given the power to regulate and licence its members to provide probate services. Another noteworthy example is that Chartered Legal Executives are now able to deliver the same range of legal activities as barristers and solicitors. How CILEx Regulation and its members (and non-members who it can also authorise for some activities) move forward and utilise these changes has the potential to dramatically re-shape the legal services landscape in the long term.

In addition to some genuine innovation, some established regulatory structures have been given new meaning. For example, following extensive consultation and investigation, the LSB looked to extend the list of reserved activities to include

will-writing. Although this proposal was not accepted by the Government of the day, our research cast an important light on this very important part of the legal services market.

There are two other notable occurrences on which the LSB has had a guiding hand. Firstly we have successfully persuaded regulators to start making more data about practitioners and their activities available to consumers. This will ultimately help consumers to make more informed choices about the legal services that they need. This is still, and will continue to be for some time, work in progress but it has started and the LSB has ensured that the regulators are on board.

Secondly we continue to encourage regulators to think more about how to do what they do differently. It is no longer acceptable for regulators to persist with prescriptive and over-engineered ways of working, when it is clear that these are no longer fit for purpose. We are helping to create an environment that focuses on what works best for both consumer and practitioner, rather than often outmoded processes. For example, through our work on learning and education, we have encouraged regulators to consider different routes to qualification as a lawyer. CILEx Regulation and the SRA have taken the lead with this. We have also encouraged a similarly outcomes focused approach towards continuous learning and development.

Generating research insights to shape regulation and policy

Our research programme continues to be well respected by generating insights and evidence to help shape regulation and policy. Where possible we worked with funding partners to extend the available budget and to enhance our understanding of the topic under consideration. Of particular note this year has been our project on helping legal services consumers make better decisions. The LSB commissioned Professor John Maule and Linstock Communications to undertake an assessment of the most effective methods of supporting consumers to identify and respond to legal problems. This research involved successfully applying behavioural economics to a previously un-researched issue with valuable results.

Another research project, jointly commissioned with the Legal Services Consumer Panel, and carried out by BDRC Continental, provided insight into the consumer experience of divorce and sought to understand whether this differs by type of channel e.g. face to face services vs. online services. This is the first time that this area has been explored, and the work highlighted some valuable insights from consumers' online experience.

The final project I'd like to reflect on is our cost of regulation project which has gathered lawyers' views on the costs that regulation imposes on them and their businesses. Its aim is to help to identify unnecessary burdens that could be removed. It has been a major undertaking on the part of the LSB, and has produced some enlightening and unexpected results.

Working with the regulators to reduce unnecessary burdens

We have come a long way since the Act received Royal Assent and the the legal services market continues to evolve. The demands that citizens legitimately make of the legal sector need to be acted on. Regulators, representative bodies and service providers alike have to be willing to adapt, lead and help shape the future of the sector.

There has to be a willingness to stand back and consider the bigger picture; placing public interest ahead of self-interest. Encouragingly, recent concrete examples of joint working give confidence that the difficulties with the current framework for legal services regulation can be addressed.

During the summer of 2013 the Government issued a 'Call for Evidence' on the future of legal services regulation. Its conclusion was that new legislation was unlikely to be a priority owing to a lack of consensus within the regulatory community and that instead the focus should be on working together on deregulation. This led to the calling of a Ministerial Summit in July 2014 to see what scope existed for greater collaborative working on reducing the regulatory burden. Since then, the LSB has coordinated a forum, at Chair level, for the regulators to work closely with a view to identifying where it is possible to lighten the regulatory burden, share knowledge and, in particular, discuss possibilities for legislative reform.

This cooperative work has been a real test of whether legal services regulators can reach agreement whilst addressing fundamental and seriously challenging questions. This work is ongoing, with a focus on four main areas:

- regulatory reform since the Legal Services Act 2007
- assembling ideas around alternatives to handling client money
- amendments to the current legislative framework
- and options beyond the current legislative framework.

I see this as the first of a number of opportunities for collaboration going forward.

I would like to take this opportunity to extend my thanks to all my colleagues on the Board for the warmth of their welcome to me on my taking up post on 1 May 2014, and of course to all the staff at the LSB for their untiring hard work, dedication and skill in navigating through what remains a considerably complex regulatory settlement. I am also very grateful to the LSB's former Chief Executive, Chris Kenny who patiently and skilfully guided me through my first few months in post until his departure in November 2014.

Mike Pitt
Chairman



Highlights of 2014/15

This report covers the period 1 April 2014 to 31 March 2015.

Notable highlights include:

- Championing greater transparency and access to industry data in order to support the empowerment of consumers through the development of consumer choice tools such as comparison websites. We have been working with the legal regulators and others to open up data held in the legal sector. The Office for Legal Complaints, Solicitors Disciplinary Tribunal and all but one of the regulators have now published core data in a reusable format. CILEx Regulation is completing further work on its publication policy, and expects to publish data in a reusable format by July 2015.
- The passing by Parliament of an Order designating the Institute of Chartered Accountants in England and Wales (ICAEW) as an approved regulator for probate activities, and as a licensing authority for the same activity. ICAEW becomes the first new regulator of legal services since the passing of the Legal Services Act 2007 (the Act).
- Approving changes to Bar Standards Board's (BSB) rules which will mean that from April 2015 the first barrister owned entities will enter the legal services market. These changes will enable barristers to innovate and deliver legal services more flexibly, while also increasing consumer choice.
- Undertaking, in conjunction with the Legal Services Consumer Panel (LSCP), research examining the consumer experience of legal services delivered online compared to face-to-face, using divorce as a case study. The report was published in March 2015 and found that both online and face-to-face services are perceived by consumers to be performing well. The findings will allow the LSB and LSCP to target future work looking at online legal services and suggest areas of interest for regulators wishing to respond to the challenges posed by online advice.
- Participating in the Ministerial Summit of legal services regulators in summer 2014, at which Ministers laid down the challenge of seeking further deregulation in the sector. We subsequently collaborated with the other legal services regulators on four work streams exploring the scope for further deregulation, including identifying clausal changes to the Act that would simplify and reduce regulation within existing primary legislation, and investigating alternative ways of handling client money that could lighten the regulatory burden on practitioners.
- Carrying out a regulatory standards exercise to review the progress regulators have made in improving their performance since the first exercise in 2012/13. Regulators provided updates on progress against their 2012/13 action plans and observations made by the LSB in its first report. The LSB's published report details priority areas where all regulators must make progress in 2015/16, as well as priority areas particular to each regulator.

- Developing an approach for a targeted regulatory standards assessment exercise to be held in 2015/16, based on new sources of intelligence. This includes a data gathering exercise from regulators and a questionnaire for third parties to share their experiences in dealing with the regulators.
- Approving changes by the SRA to its Continuing Professional Development regulatory arrangements, which move away from a prescriptive, hours based approach, to one focussed on relating learning and development to a solicitor's role and ensuring ongoing competence. It is expected that this will benefit consumers by encouraging solicitors to be more thoughtful and targeted in how they go about enhancing their skills.
- Completing the first stage of a substantial project that aims to put the cost of regulation of the legal profession under the spotlight. Work done to date includes the launching of, and reporting on, an online survey completed by almost 1000 legal practitioners and businesses exploring their perceptions of the costs of regulation and how this affects their work.
- Launching a review of the restrictions on in-house lawyers with a view to removing barriers and stimulating innovation.
- Developing a new three year strategy (2015 to 2018) for the LSB, taking account of the LSCP's report on the future of legal services, highlighting the rapid pace of change in the sector, and the substantial changes facing the public, consumers and practitioners.
- Joining the UK Regulators Network (UKRN) as an observer member, with a view to learning from and sharing best practice with the UK's main economic regulators, particularly in relation to understanding affordability across sectors, regulating for quality, consumer engagement and organisational development.



About us

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

Our 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

We are independent of Government and of the legal profession.

Our regulated community

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

We also have responsibilities in relation to the Office for Legal Complaints (OLC) and its administration of the Legal Ombudsman scheme. The scheme resolves complaints about lawyers. Our relationship with the OLC is guided by a Memorandum of Understanding. We approve the OLC's annual budget and are able to set or agree performance targets.

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

Figure 1:

Approved regulator	Regulatory body	Reserved activities	Licensing authority	No. of authorised persons	No. of regulated entities
Law Society	Solicitors Regulation Authority	The exercise of a right of audience The conduct of litigation Reserved instrument activities Probate activities The administration of oaths	YES	138,243 At 01 Apr 14 (levy figures)	10,316 (March 15) 344 ABS (Jan 15)
General Council of the Bar	Bar Standards Board	The exercise of a right of audience The conduct of litigation Reserved instrument activities Probate activities The administration of oaths	NO	15,279 At 01 Apr 14 (levy figures)	N/A
Faculty Office		Reserved instrument activities Probate activities The administration of oaths Notarial activities	NO	790 At 01 Apr 14 (levy figures)	N/A
Chartered Institute of Legal Executives	ILEX Professional Standards	The exercise of a right of audience The administration of oaths The conduct of litigation	NO	7,930 At 01 Apr 14 (levy figures)	N/A
Council for Licensed Conveyancers		Reserved instrument activities Probate activities The administration of oaths	YES	1,222 At 01 Apr 14 (levy figures)	219 (Sep 14)
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	2,034 At 01 Apr 14 (levy figures)	215 (Dec 14)
Institute of Trademark Attorneys			YES	790 At 01 Apr 14 (levy figures)	
Association of Costs Lawyers	Cost Lawyer Standards Board	The exercise of a right of audience The conduct of litigation The administration of oaths	NO	560 At 01 Apr 14 (levy figures)	N/A
Institute of Chartered Accountants in England and Wales (ICAEW)		Probate activities	YES	N/A	N/A
Institute of Chartered Accountants of Scotland (ICAS)*		Probate activities	NO	N/A	N/A
Association of Chartered Certified Accountants (ACCA)*		Probate activities	NO	N/A	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.

Our regulatory responsibilities

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

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

The professional principles are further defined in the Act as:

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

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

Ultimately, the primary responsibility for devising, developing and implementing regulation that guarantees public trust and confidence in the legal profession in England and Wales 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.

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

- **approval and recognition** – we consider a range of applications from both existing regulators (including applications to become a licensing authority, changes to regulatory arrangements and extension of scope) and those seeking to become an approved regulator
- **monitoring and investigation** – we monitor regulators' compliance with regulatory requirements; oversee the performance of the OLC; and perform some specific duties in relation to the SDT. We also examine the wider marketplace 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, we have a range of powers at our disposal to ensure that this happens. These powers include the power to set targets, give directions, publicly censure a body, impose a fine, intervene in the running of the body and ultimately recommend cancellation of a body's designation as an approved regulator and a licensing authority
- **regulation, education and training** – we have a duty to assist in the maintenance and development of standards of regulation by approved regulators and in the education and training of persons carrying out reserved legal activities

- **scope of regulation** – we have powers to make recommendations to the Lord Chancellor on the designation of new activities as reserved and the removal of existing designations.

The Act also makes provision for the LSB to be a licensing authority “of last resort” i.e. if there is no existing licensing authority with licensing rules suitable for licensing a particular type of alternative business structure (ABS). In order for the LSB to take on this role, the Ministry of Justice (MoJ) would have to commence the relevant provisions of the Act (section 73(1) and Schedule 12). In the event, this has not taken place, and it was determined that the licensing rules of the existing authorities are sufficiently broad to address all types of ABS. The LSB’s Licensing Authority Committee, which had been established for this purpose, and did not have any occasion to meet, has therefore been stood down.

Our key non-regulatory relationships

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

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

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

How we are funded

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

For the period covered by this report, the LSB’s share of the levy was calculated based on the number of persons that each approved regulator authorised as at 1 April 2014 to undertake reserved legal activities, including a fixed minimum initial contribution of £3000 for newly approved regulators.

¹ http://www.legalservicesboard.org.uk/can_we_help/lwb_policies_procedures/welsh_language_scheme.htm



Our activities in 2014/15

We set out the work we intended to deliver in 2014/15 in our Final Business Plan 2014/15². The Plan set out a range of activities, the milestones we intended to meet in delivering them and why we believed the work was important. The Plan was finalised following public consultation.

Work stream A: Regulatory performance and oversight

ROs supported: RO1, RO4, RO6, RO7

This work ensures that legal services regulation is effective and carried out in accordance with the better regulation principles and best regulatory practice. The effective delivery of the four regulatory standards should contribute to growth in the sector. This work stream includes our ongoing work on regulatory performance assessment where, this year, our main focus has been to assess regulators' progress in developing the areas identified by our regulatory standards.

This work has been a major undertaking. In 2014/15, we have also developed plans for a full review of all regulators to take place in 2015/16.

During the year we have continued to stress the importance to regulators of taking an outcomes-focused approach to their work, emphasising the right outcomes for consumers and moving away from detailed prescriptive rules where possible. This is linked to the ability to profile those regulated according to the level of risk that they pose.

During the course of the year we planned three thematic reviews. These reviews were designed to assess whether certain aspects of the regulatory arrangements or statutory requirements are consistent with the regulatory objectives and better regulation principles. We decided to focus particularly on requirements that appeared to be unnecessarily restrictive, including issues identified in our Blueprint for regulatory reform³ (2013/14).

We completed a thematic review that examined the extent to which regulation, for example, the SRA's separate business rule, unnecessarily prevents legal services providers from structuring their businesses as they wish. Businesses want to be able to offer different types of legal and non-legal services and reward their employees in ways that they want. We also launched a thematic review that looked into the extent to which restrictions on forms of practice are consistent with section 15 of the Act which sets out when

² http://www.legalservicesboard.org.uk/news_publications/publications/pdf/20140408_LSB_2014_15_Business_Plan.pdf

³ http://www.legalservicesboard.org.uk/what_we_do/responses_to_consultations/pdf/a_blueprint_for_reforming_legal_services_regulation_lsb_09092013.pdf

an entity needs to be authorised to provide reserved legal services to the public or a section of the public (encompassing the rules around in-house practice). Finally, we planned a review of Schedule 13 to the Act to understand whether ownership tests for ABS needed to be more targeted and proportionate. This review was significantly re-scoped during the year, when it became apparent that our concerns in this area were likely to be best addressed – at least initially – through direct discussions with the SRA about its processes and procedures.

An account of the status of each work package in work stream A is detailed in the table below.

Milestone/output	Description
Developing standards and performance	
<p>Quarter Q1-4: Request, receive, and analyse reports from regulators accounting for their progress against action plans and development of new action plans</p>	<p>Completed:</p> <p>We requested that regulators account for the progress that they had made in developing regulatory standards through an update self-assessment exercise. In this self-assessment, regulators reported on work completed against action plans that were developed as a part of their 2012/13 self-assessments. All update self-assessments were received within the agreed timeframe. They showed that regulators had delivered substantial aspects of their action plans. However, areas were identified where all regulators will be expected to make progress (in varying degrees) during 2015/16. These priority areas are highlighted in the LSB's 2014/15 report on regulatory standards⁴. Priority areas specific to each regulator are also set out.</p>
<p>Q3-4: Develop plans for full reviews of all regulators to take place in 2015/16</p>	<p>Completed:</p> <p>We developed an approach to carrying out a full review of regulatory standards in 2015/16. Latest developments in regulatory best practice will be added to our current method of assessing standards. These include: requirements set out in the updated Regulators' Code⁵; the Deregulation Act's duty (for non-economic regulators) to have regard for growth⁶, and the LSB's indicators to assure quality in legal services. We will also request operational data from regulators and seek feedback from third parties to increase our understanding of regulators' performance and to focus attention on key areas for further analysis and evidence gathering. Regulators will receive targeted self-assessment requests for areas where evidence suggests that there may be issues, or where we do not have the evidence to make a judgement.</p>

⁴Page 6, LSB (February 2015), Regulatory standards 2014/15, http://www.legalservicesboard.org.uk/news_publications/LSB_news/PDF/2015/20150225_Regulatory_Standards_FINAL.pdf

⁵Department for Business, Innovation and Skills: Better Regulation Delivery Office (April 2014), Regulators' Code https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/300126/14-705-regulators-code.pdf

⁶Department for Business, Innovation and Skills: Better Regulation Delivery Office (January 2014), Draft guidance: Non-economic regulators – duty to have regard to growth, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/274552/14-554-growth-duty-draft-guidance.pdf

Thematic Review: Review of Schedule 13 of the Act

Q2: Work with stakeholders to categorise issues and identify options for change

Q2: Consultation on proposals for change

Q3: Submit recommendation to Lord Chancellor

Re-scoped and ongoing:

The Board agreed the milestones for this project at its January 2014 meeting. Following this, having reviewed the requirements of Schedule 13 of the Act and current licensing authority arrangements, we identified that the majority of problems appeared to be related to the SRA's approach. It was thought that there was potential to address this quickly, through changes to SRA processes and procedures, with the SRA being open to taking forward the necessary work.

Only once that work is done will we be able to properly assess if changes are needed to Schedule 13. As such, the direction of the project was revised to focus on working with the SRA to simplify what we consider to be its overly complex processes. This work is ongoing.

Thematic Review: Review of s.15 of the Act

Q1: Publish detailed scope of, and schedule for, completion of a review of s.15

Completed:

We published the scope of review and the schedule for the work in July 2014. In February 2015, we published our initial analysis of how current practising rules for in-house lawyers align with the minimum restrictions contained in section 15 of the Act. This paper invited regulators to explain their approaches and the evidence for any restrictions on in-house lawyers. We also sought feedback from all interested parties on the impact of current approaches to help identify possible areas for improvement. The responses will inform our final report in Autumn 2015 and, if appropriate, any recommendations for future action. In addition to the regulatory powers that the Act gives us, section 15 includes provisions that provide the opportunity to make recommendations to the Lord Chancellor in this area.

Thematic Review: Extent that some regulation restricts legal services providers

Q1: Publish detailed scope of and schedule for completion of review

Completed:

This thematic review was completed in October 2014. We published a review of the rules that prevent lawyers from owning or being connected to other businesses. This concluded that there is nothing currently in statute that requires a regulator to restrict legal services providers' ability to be connected with, invest in or own any other business. While there may be some legitimate reasons why additional regulatory requirements may be imposed on lawyers with connected businesses, blanket bans are likely to be disproportionate. We expect regulators to review their current restrictions and processes against the regulatory objectives and consider what changes can be made. We support the review the SRA is undertaking to review its separate business rule.

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

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

As at February 2015, there were around 370 ABS licensed by the SRA, 55 by ICAEW and 46 by the CLC.

During 2014/15 we have continued to monitor the length of time that it takes the SRA to consider ABS licence applications through the use of our powers to obtain information under section 55 of the Act and through our regular discussions on the subject with the SRA. Our view is that the SRA has made considerable progress in speeding up authorisations, but that scope remains for the SRA to take a more proportionate approach, including in relation to information required from applicants. We are discussing process and policy reforms with the SRA and have made clear that we will continue our scrutiny in 2015/16 until we can be assured as to the scope and impact of those reforms.

Work stream B: Strategy development and research

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

The aim of this work stream is to facilitate a thriving legal sector in which regulation creates the right incentives to offer greater innovation, choice and affordable services.

Activities in this work stream are also key to delivering our statutory obligation to assist in the maintenance and development of standards of regulatory practice and the education and training of lawyers. Our work on *Liberalising the Legal Workforce* (which included agreeing an approach to monitoring delivery of LSB guidance on education and training) and our reporting on regulators' progress against LSB guidance on diversity data and transparency contributed to our delivery of this obligation.

Furthermore, understanding the costs and benefits of legal services regulation for different legal activities and different types of consumer, as well as the drivers and barriers to effective competition, is essential to target reform. This will help ensure delivery of a thriving and liberalised legal sector, and provide assurance to all providers considering entering the market, that they can work without unnecessary barriers to entry or ongoing operation. This year, we began to explore these issues in detail in our Costs of Regulation work, a complex and valuable project that will be completed in 2015/16.

Another major facet of this work stream is *Improving the Consumer Experience*. At its most basic, this work is about helping consumers to choose and use legal services with confidence. This year we worked with regulators, with a view to holding them to account through the regulatory standards programme, to ensure that they gain better understanding of the consumer experience of using legal services.

Underpinning all of our work is our well-regarded research programme, where in 2014/15 we again squeezed maximum value from the allocated budget to deliver a wide-range of qualitative and quantitative studies. Where possible we worked with funding partners to extend the available budget and to enhance our understanding of the topic under consideration. Of particular note this year has been our project on helping legal services consumers make better decisions. The LSB commissioned Professor John Maule and Linstock Communications to undertake an assessment of the most effective methods of supporting consumers to identify and respond to legal problems. This research produced valuable results by applying behavioural economics to an important issue that had not previously been researched.

Another research project, jointly commissioned with the LSCP, and carried out by BDRC Continental, provided insight into the consumer experience of legal services for divorce and sought to understand whether this differs depending on the channel by which such services are delivered e.g. face-to-face services vs. online services. The results to both of these projects can be found on the research section of our website⁷.

⁷ <https://research.legalservicesboard.org.uk/>

Although not part of our planned work programme for 2014/15, a key area of focus in the latter part of the year was a number of work streams that emerged following a summit in July 2014 hosted by the Minister of State and attended by the Chairs of the regulatory boards. The aim of these work streams was to identify and commence work on short and medium term proposals for further deregulation, and if possible, to provide an incoming government with suggestions agreed between the legal services regulators for changes in this area. The work has been divided up into four work streams addressing (i) progress that has already been made on deregulation, (ii) progress that could be made without the need for changes to the law, focussing initially on possible alternatives to the handling of clients' money by practitioners, (iii) other minor changes requiring modifications to existing legislation, and (iv) options for a future legislative framework, if and when the government decides there is a the need for more fundamental reform. This work will continue into 2015/16.

An account of the status of each work package in work stream B is detailed in the table below.

Milestone/output	Description
Regulatory reform: Costs of Regulation Assessment	
<p>Q1: Review of available data and information to assess the total cost of regulation</p> <p>Q2: Gap analysis and assessment of the most viable options for collection of indirect costs of regulation</p> <p>Q2: Prioritisation of areas for analysis</p> <p>Q2-3: Consultation with regulators</p> <p>Q4: Publish research</p>	<p>Partially complete and ongoing:</p> <p>Whilst the first three milestones have been completed, one milestone was completed later than expected and the last milestone has been re-scoped. This is due to the complexity of the project and staff turnover in key roles. This project is therefore not yet completed.</p> <p>In July 2014 we published the proposed research approach to this project which set out the key research questions and methods of this project. This project is split into two strands covering the cost of regulation faced by providers and the costs of the regulators themselves. Scoping papers for these strands were published in July 2014 and January 2015 respectively. A stakeholder reference group has met twice since the beginning of the project and will continue to meet as this project progresses.</p> <p>The results of a survey of legal practitioners and businesses about the cost of regulation were published in March 2015. Further results and a report detailing the findings from phase one of this project will be published in 2015/16.</p>

Liberalising the legal workforce

Q1: Agree an approach to monitoring delivery of LSB guidance on education and training

Completed:

The approach to monitoring delivery of LSB guidance was agreed in June 2014.

Q4: Report on regulators' progress against LSB guidance on diversity data and transparency

Completed:

We published our report in March 2015. It found that regulators' actions have led to the development of a robust evidence base on diversity in the legal sector, with data now being collected in a number of areas where none, or limited data, existed before. However, the report highlighted the limitations of the regulators' analysis and use of the data collected. This has lacked the statistical sophistication necessary for it to have the level of impact it could have had, particularly with regard to progression and retention within the legal sector. In March 2015, the LSB held a roundtable with the regulators to discuss the findings of our report and to help them identify what more they can do to make a difference on diversity. Discussions are ongoing with the regulators with a view to agreeing the following actions:

- Displaying greater statistical sophistication in the collection, analysis and presentation of data to ensure it can have a real impact on the long term issues in the sector
- Considering the burden imposed by data collection exercises.
- Identifying where the sharing of data can provide additional value
- Ensuring that raw anonymised diversity data can be published for others to use.

Improving the consumer experience

Q4: Agree an approach for improving the provision and transparency of regulatory data as part of the 'Approaches to Quality' success criteria

Completed:

All but one regulator has published core regulatory data in a reusable format. The remaining regulator is working towards publishing this data by July 2015.

Q2-3: Publish discussion paper on whether there is information that would enable us to identify indicators of informed consumer decision making

Deferred:

Progress made on the opening up of regulatory data and scheduling of work packages in the 2015-18 Strategic Plan means that this research will be of greater impact in 2015/16.

<p>Q2-3: Consider appropriate action depending on the outcomes of 2013/14 research into effective methods to support consumers in identifying and responding to legal problems</p>	<p>Completed:</p> <p>Following completion of research and the sharing of its outcomes with regulators this initiative now rests with them.</p>
<p>Q1-4: Continue to monitor how regulators are using complaints data to identify emerging patterns of provider behaviour</p> <p>If we identify that this is not happening we will work with regulators and Legal Ombudsman to develop an appropriate regulatory response</p>	<p>Ongoing:</p> <p>Work in this area will be carried forward as part of our work on regulatory standards.</p>
<p>Q1-2: Depending on outcomes of research propose appropriate action</p> <ul style="list-style-type: none"> • Consumer information for regulation of complaints handling • Consumer experience of on-line divorce 	<p>Deferred:</p> <ul style="list-style-type: none"> • The work to assess how and when consumers are informed about their rights to complain will be reflected within the scope of the thematic review on s.112 planned for 2015/16. <p>Completed:</p> <ul style="list-style-type: none"> • This research has been completed and the findings published. No further action is proposed at this time.
<p>Q1-3: Contribute to 2014/15 regulatory standards exercise</p>	<p>Completed:</p> <p>We reminded regulators formally of our expectations in relation to the 'Approaches to Quality' success criteria, and that these criteria would be incorporated into the 2015/16 regulatory standards exercise.</p>
Improving the consumer experience	
<p>Q1: Publish research plan</p>	<p>Completed:</p> <p>The research plan was published in Q1. Throughout the year we delivered a varied research programme designed to develop the evidence base for legal services regulation. All research has been published on the research pages of our website.</p>
<p>Q3: Publication of report on the evaluation of impacts of the Act: Access to Justice</p>	<p>Deferred:</p> <p>This work has been deferred until 2016 and will form a part of the full market evaluation research.</p>

Work stream C: Statutory decision making

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

Work in this area includes our activity to ensure that the rules governing the levy we must charge to fund both the LSB and OLC are up to date. In April 2014, amendments to these rules (made in 2013/14) came into effect.

In our 2014/15 Business Plan we set-out the service standards to which we would work when making our regulatory decisions. Performance against those standards is set out below.

Activity	How we performed
Publication of applications on our website	<ul style="list-style-type: none"> 100% (15 out of 15) of applications for approval of changes to regulatory arrangements were published within the two working day target
Decisions and recommendations on an application	<p>Changes to regulatory arrangements:</p> <ul style="list-style-type: none"> 16 decisions in applications to change regulatory arrangements were made 10 decisions were made in the initial decision period of 28 calendar days 4 decisions were made in an extended decision period of 90 calendar days Decisions were made on 2 cases for which a warning notice had been issued to the applicant; 1 case was decided in 157 calendar days and the other in 134 calendar days

Publish our decisions, extensions, warnings and refusals to consider applications	<ul style="list-style-type: none"> • 95.3% (41 out of 43) of notices were published on our website within the target of 2 working days • One decision notice on an application for approval of changes to regulatory arrangements was published 9 working days after the decision was made as the result of an administrative error. One exemption direction was published 4 weeks after the decision was made at the request of the regulator to coincide with an announcement it was making
Publish advice from mandatory consultees, written representation from applicants, oral representations	<ul style="list-style-type: none"> • Not applicable; no advice was received from mandatory consultees on designation applications
Recommendations to the Lord Chancellor	<ul style="list-style-type: none"> • 100% of target achieved. 4 recommendations were made under section 69 of the Act and 2 under section 80; all were published within 5 working days of the recommendation being made. • There were no recommendations to the Lord Chancellor in respect of designation applications

At the start of 2014/15 there were 2 ongoing rules change applications and 15 new applications were received. 16 decisions were made and one remained ongoing at the end of the year. The average time for making a decision, excluding the 2 cases on which warning notices had been issued, was 30 days (31.5 days in 2013/14).

23 exemption directions were issued. 3 of these were submitted as full applications; after reviewing these applications LSB considered that they could be exempted from the full process due to their low significance, impact and risk.

Summary of research activity in 2014/15

The LSB is committed to developing the evidence base for legal services regulation, to support the development of regulatory policy and understand the impacts of reform. Through our Research Strategy Group, we hold detailed consultations with a range of stakeholders on our research plans and the LSB seeks to work collaboratively with partners where possible. We undertook or commissioned the following research in 2014/15. All research and data is made publicly available via our research web pages promoting the use of the findings of research and greater use of evidence in legal services policy making.

Research reports published in 2014/15

Research	Undertaken by	Date published	Summary
Learning from the legal services in the Personal Injury (PI) market	London Economics	July 2014	Economic and quantitative analysis on what makes access to justice work better in PI than other markets, and what lessons might there be for regulation.
How people resolve 'legal' problems: legal capability and consumer characteristics	Professor Pascoe Pleasence, Dr Nigel Balmer	May 2014	A quantitative analysis of how consumers' attitudes and beliefs about the law affect their responses to legal problems.
Helping legal services consumers to make better decisions	Professor John Maule	May 2014	An assessment of the most effective methods of supporting consumers to identify and respond to legal problems.
Comparing methods of service delivery: A case study on divorce, (jointly with the LSCP)	BDRC Continental	March 2015	Provide insight into the consumer experience of divorce and to seek to understand whether this differs by type of channel e.g. face-to-face services vs. online services.
Costs of regulation – survey of the views of regulated providers	In- house	March 2015	First part of research activity to support the LSB review looking at the cost of legal services regulation.

Research in progress – commissioned in 2014/15 but yet to complete

Research	Undertaken by	Planned Publication Date	Research Purpose
Innovation: capabilities and barriers in legal services, (jointly with the SRA)	London Economics	May 2014	Quantitative investigation into capabilities for and barriers to innovation in the legal services sector.
The impact of 'unbundled' services on consumers, (jointly with the LSCP)	Ipsos Mori	May 2015	Understanding consumer experiences of providing and receiving discrete elements of legal services in relation to one case.
Costs of regulation – in depth investigation into the cost of regulation for individuals and entities	ICFI consulting	July 2015	Attempt to quantify the cost of specific areas of regulation.
Small Business legal needs survey	You Gov and Small Business Research Centre, Kingston University	June 2015	Updating the 2013 survey to support evaluation of market impacts of the LSA.
PhD Student funding	Warwick University	PhD completes in 2016	LSB part funding a PhD student at Warwick University. This is focused on professional ethics.

Research projects incorporated and deferred

Planned research projects to look at the trends in the use of alternative dispute resolution schemes and evaluation of market impacts of the Act have been incorporated into the wider market evaluation update to be published in early 2016. The 2015 update of the individual legal needs survey has been deferred to enable joint working with the Legal Education Foundation and the Law Society. Further, given the progress the regulators have made in opening up data sets for use by third parties (for example comparison websites), we deferred the research into the availability of quality and price information and open data market impacts case studies until 2015/16. This will be taken forward as one research project, subject to funding priorities.

Financial Statements of the Legal Services Board

for the year ended 31 March 2015

LSB Members' Report

LSB Framework Agreement

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

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

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

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

Financial performance measures and results

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

litigation costs). In doing so, 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:

	2014/15	2013/14
	£000	£000
Budget	4,298	4,448
Expenditure	3,921	4,266
Underspend	377	182

The underspend for 2013/14 was mainly due to holding some staff posts vacant for an extended period, maintaining salary increase within an overall 1% limit and with additional reductions in expenditure for rent and services following a move to smaller premises at One Kemble Street. These factors together enabled the LSB to continue to fund the unbudgeted costs of the challenge to its decision on the Quality Assurance Scheme for Advocates (QASA) without the need to seek any immediate grant-in-aid.

The underspend for 2014/15 was mainly due to similar factors: vacant posts, limiting salary increases (in line with restrictions in the wider public sector) but also due to the fact that the LSB was unable to complete all of its planned research programme due to delays in agreeing joint funding arrangements for some projects. The appellants in the judicial review application against QASA have been granted leave to appeal to the Supreme Court on a narrow point of European law. It is therefore unclear at present if, and when, the LSB may be able to recoup any of the costs it incurred in defending the action.

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, are 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 1b).

Income and expenditure is accounted for on an accruals basis. The levy amount charged and collected in 2014/15 was £4,116k (£4,137k 2013/14). The amount of funds added to deferred income was £195k (£73k was released from funds held as deferred income in 2013/14). Any underspend that the LSB achieves in one year reduces that amount it needs to collect from the levy in the subsequent year.

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

The LSB recognises funds received as “prescribed fees”, as defined in the Act at section 175 (2), for designation and licensing authority applications. Such fees received are initially treated as deferred income and released to the Statement of Comprehensive Net Expenditure in accordance with the value of work undertaken. These fees are set against the LSB’s expenditure and also reduce the levy payable by all approved regulators. There were no amounts received as “prescribed fees” in 2014/15 (£56k 2013/14) and there are no monies left in deferred income from “prescribed fees” as at the 31 March 2015.

Although the LSB has relatively little absolute discretionary spend, as most of its costs are currently fixed (staffing, premises, Board, outsourced services, depreciation etc), it is constantly striving for the best value for money in the goods and services it purchases, fully cognisant that its funds are generated from the legal services sector.

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

These outsourced arrangements provide the LSB with built in resilience, which is normally not a feature of small organisations. This obviates the need for expensive consultancy or temporary staff cover, whilst ensuring that the organisation still receives a focused bespoke service, which recognises both its independent status and unusual funding and remuneration models (eg absence of defined benefit pensions) compared to 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, Innovation and Skills and the Cabinet Office, the LSB aims to pay all authorised invoices that are not under dispute within 10 days from receipt. Throughout 2014/15, 100% of these invoices were paid within 10 days.

Pension liabilities

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

Professional financial advice

The LSB has engaged the services of Philip Lindsell, a chartered accountant, to provide support to the Audit, Risk and Assurance Committee in reviewing and challenging the policies and procedures instigated by the Executive. In 2014/15, the LSB paid £4.0k (£2.4k in 2013/14) for these services.

Equality and colleague involvement

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

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

The LSB maintains an open management style and strives to involve colleagues fully in matters affecting them. It holds regular all-colleague meetings, and colleagues are consulted on matters affecting their employment and welfare. Building on the results from the first colleague engagement survey carried out in November 2012, the LSB continues to carry forward the learning and organisational development points that emerged, and plans are in train to conduct another survey during 2015/16.

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

Auditor

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

The LSB's annual financial statements are audited externally by the Comptroller and Auditor General (C&AG) in accordance with the Act, Schedule 1, paragraph 25(4)(a). For the period ended 31 March 2015, 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.

Richard Moriarty

Accounting Officer

28 May 2015

Management Commentary (including Strategic Report)

The LSB and the environment within which it operates

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

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

In 2014/15 the LSB oversaw regulation by 11 approved regulators, which themselves directly regulated the circa 166,000 lawyers practising throughout the jurisdiction. In July and August 2014, the ICAEW was formally designated as approved regulator and licensing authority for the reserved legal activity of probate activities. ICAEW thus became the first new approved regulator to be designated since the Act came into force, and the establishment of the LSB. Taken with the Lord Chancellor's simultaneous decisions to award licensing authority status to IPREG and give new reserved activity rights to IPS, this represents a major step forward in the key objective of enabling liberalisation of the legal services market and encouraging innovation.

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

Objectives and strategy for achieving them

The LSB's Business Plan for the year covered by this Report was published in April 2014 and is available at www.legalservicesboard.org.uk. This document is set within the context of the LSB's objectives for the three years 2012-2015, and it includes the medium-term implications for its work and the way in which it intends to deliver them. The Plan for the year ahead was published in April 2015.

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

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

The LSB's employees

As at 31 March 2015 the LSB had 27 full time employees and three part time employees, and 63% of the staff complement were women. Excluding directors there were two senior managers, both of whom were women. The LSB's average sickness absence was 4.1 days per full time equivalent (3.2 days 2013/14). The LSB supports a range of flexible working patterns.

Environment, social and community issues

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

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

In 2014/15, LSB colleagues took part in a number of charitable activities, including the London Legal Walk which raises funds to help fund the provision of free legal advice.

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

In October 2014, the Court of Appeal entirely dismissed the appeal against the outcome of a judicial review relating to a LSB decision to approve an application to introduce the Quality Assurance Scheme for Advocates (QASA). This judgment reinforced the LSB's role as an independent oversight regulator and its duties in exercising its decision-making powers in accordance with the statute underpinning it.

QASA litigation is, however, ongoing as the Supreme Court heard the Claimants appeal in relation to one ground only, namely the application of the European Union Services Directive, and whether QASA should have been treated as an 'authorisation' scheme and its proportionality be determined in accordance with the Directive requirements. The outcome of this hearing is currently unknown.

The LSB's work to date continues the process of building a regulatory system for the legal services sector that is able to command continuing public confidence. The consequences of this work - independence in regulation, improved complaints

resolution through the Legal Ombudsman, and a market open to liberalisation – have and will continue to deliver benefits to consumers, the public, the legal profession and the economy in the years ahead. The LSB has increasingly supplemented this with a sharper focus on effectiveness in regulation, with the emphasis on slimming down prescriptive rule books, better risk identification and supervision, and rapid and proportionate enforcement to help ensure that legal regulators can make an effective contribution to innovation and growth in the legal services market and wider economy.

In July 2014, in response to the lack of consensus emerging following its call for evidence in 2013, the MoJ called a 'regulators' summit'. The main aim of the event, which was chaired by the Minister of State and attended by the Lord Chancellor, was to seek to put forward practical suggestions on how the regulatory burden on practitioners might be reduced. Following further sessions in October 2014 and February 2015, some proposals on relatively straightforward quick wins were endorsed in principle by the regulatory bodies, and it is planned that further proposals will be considered for similar endorsement. It is intended that outputs from this work should be presented to an incoming ministerial team following the May 2015 General Election.

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

- the challenges of capacity and capability faced by many of the regulators, as they assume wider responsibilities in a changing market, and welcome new senior leaders and Board members. The LSB in its work on regulatory effectiveness will continue to focus on capacity and capability in planning for a full assessment exercise in 2015/16

- the need for regulatory action – both by the LSB in relation to the bodies it oversees and by those bodies themselves – to focus on risks and key outcomes and avoid prescription and over-intervention in order to reduce costs and burdens and to foster innovation. It notes, in particular, research evidence suggesting the need to address both the perception and reality of excessive burdens on small firms
- decisions made by Government on public funding for legal aid, the prevailing economic climate and decisions made by private insurers are all combining to make for challenging times for some practitioners, not least those operating in criminal and civil law where legal aid funding changes are most significant. Yet this is only one aspect of the legal services market – there remain areas where legal services providers are doing very well, exploiting new markets and seeing healthy profits
- the opportunities presented by new technology and ways of working, makes imperative the need for a regulatory environment which encourages flexibility and adaptability and ensures that consumers are properly protected in both financial terms and continuity in the event of failure. Emerging trends, including ‘self-service’, greater service bundling and increasing plurality of ownership models requires regulators to make important and evidence based judgements about how to strike the balance between the protection of the consumer interest and promoting innovation in the sector
- the need for a regulatory approach that is sufficiently nimble and adaptable to support and respond to the requirement for collaborative working across traditional divides in order to meet consumer need

- developments in broader regulatory practice in other sectors and other jurisdictions, as well as developments in governmental regulatory policy

The LSB will continue to play its part in enabling the delivery of more competition and innovation within the sector, and ensuring that markets for both initial and continuing education and training maintain standards of competence, while providing diversity in the provision offered, and the students and practitioners it attracts.

The principal risks and uncertainties facing the LSB

Risks arise from the complexity of the legislation in which it operates, and the LSB has used the opportunities provided by the regulatory summits and other events to further promote proposals to simplify the statutory regulatory framework. But it will also ensure that its disciplines and internal processes are rigorous in ensuring that it properly discharges its duties under the Act and does not act beyond the scope of its powers.

The remit of the LSB’s Audit and Risk Assurance Committee includes ensuring a consistent Board overview of the effectiveness of management action to identify and mitigate risk. The risk management approach captures and assesses risks in relation to all key policy delivery, project and operational areas. This is considered in more detail in the Governance Statement on pages 38-43.

Remuneration Report

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

The remuneration of the Chief Executive is determined following a recommendation to the Board by its Remuneration and Nomination Committee. The performance of the Chief Executive is reviewed annually by the Chairman. The first review for Richard Moriarty will be in 2015/16.

Appointments

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

The Chairman, Sir Michael Pitt, was appointed on 1 May 2014 for a three-year term. The Chairman is required to commit at least 70 days per annum to the work of the LSB.

Two new appointments became effective from 1 April 2014; these are Marina Gibbs as a lay Member and David Eveleigh as a non-lay Member. Dr Helen Phillips was also appointed as lay member with effect from 9 March 2015. 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.

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.

	Date Appointed	Date Appointment Ends (actual date shown if appointment already expired)
Sir Michael Pitt (Chairman)	1 May 2014	30 April 2017
William Moyes	1 September 2008	30 September 2015
Edward Nally	14 February 2011	30 September 2015
Terry Babbs	1 April 2013	31 March 2016
Anneliese Day QC	1 April 2013	31 March 2016
Marina Gibbs	1 April 2014	31 March 2017
David Eveleigh	1 April 2014	31 March 2017
Dr Helen Phillips	9 March 2015	31 March 2018
Chris Kenny (former Chief Executive)	1 January 2009	30 November 2014
Richard Moriarty (Chief Executive)	2 February 2015	(see termination note above)

Remuneration of Chairman and Board members

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

	Annual salary Rate	Remuneration					
		2014/15			2013/14		
		Salary	Pension	Total	Salary	Pension	Total
Sir Michael Pitt (Chairman)	63,000	57,750	-	57,750	-	-	-
David Edmonds (Chairman)	63,000	5,250	-	5,250	63,000	-	63,000
Steve Green	-	-	-	-	15,000	-	15,000
William Moyes	15,000	15,000	-	15,000	15,000	-	15,000
Barbara Saunders	-	-	-	-	15,000	-	15,000
Andrew Whittaker	-	-	-	-	15,000	-	15,000
Edward Nally	15,000	15,000	-	15,000	15,000	-	15,000
Terry Babbs	15,000	15,000	-	15,000	15,000	-	15,000
Anneliese Day QC	15,000	15,000	-	15,000	15,000	-	15,000
Marina Gibbs	15,000	15,000	-	15,000	-	-	-
David Eveleigh	15,000	15,000	-	15,000	-	-	-
Dr Helen Phillips	15,000	966	-	966	-	-	-
Chris Kenny ¹ (Chief Executive until 30 November 2014)	160,000	107,590	24,000	131,590	160,000	36,000	196,000
Richard Moriarty ² (Chief Executive from 2 February 2015)	142,500	22,596	3,475	26,071	-	-	-

As at 31 March there were nine directors - six men and three women.

In 2014/15 the annual full-time equivalent rate of remuneration ranged from £23,000 to £160,000. (2013/14 £25,496 to £160,000). In 2014/15, a pay award of 1% of salary budget was distributed on a flat percentage basis to all eligible colleagues bar the Chief Executive.

¹Chris Kenny's contracted salary was £160,000 but the cash amount he received varied from year to year as a result of choices he made as part of salary sacrifice arrangements.

The contractual pension contribution that the LSB made to his pension was 22.5%. He was granted an interest free loan of £2,072 for the purchase of an annual rail Travelcard in October 2013, which was fully repaid by October 2014).

²Richard Moriarty's contracted salary is £142,500 but the cash he receives may vary from year to year as a result of any choices he makes as part of salary sacrifice arrangements. The contractual pension that the LSB makes to Richard Moriarty's pension is at a rate of 19.4%.

The annual full-time equivalent contractual salary of the most-highly paid Director who was also the most highly paid individual at the LSB in the financial year 2014/2015 was £160,000. This was 3.73 times the median salary of the workforce, which was £42,943.

The contractual salary of the most-highly paid Director who was also the most highly paid individual at the LSB in the financial year 2013/14 was £160,000. This was 3.15 times the median salary of the workforce, which was £50,773.

Richard Moriarty

Accounting Officer

28 May 2015

Statement of Accounting Officer's Responsibilities

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

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

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

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

Governance Statement

Scope of responsibility

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

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

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

Corporate governance framework of the LSB

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

The LSB welcomes its duty under section 5 of the Act to have regard to generally accepted principles of good corporate governance. In accordance with this, the Board has adopted a *Governance Manual*, which is published on the LSB's website: www.legalservicesboard.org.uk. In addition, the website includes details of Board Members' biographies and information about their LSB-related expenses, interests and any corporate gifts or hospitality they have received or given.

LSB Board

The Board comprises both non-executives (including the Chairman) and the Chief Executive. The Board met formally on eight occasions during the period April 2014 to March 2015.

Meeting attendance	
David Edmonds (Chairman)	1/1
Sir Michael Pitt (Chairman)	7/7
William Moyes (lay member)	8/8
Edward Nally (non-lay member)	8/8
Anneliese Day QC (non-lay member)	5/8
Terry Babbs (lay member)	8/8
Marina Gibbs (lay member)	8/8
David Eveleigh (non-lay member)	5/8
Dr Helen Phillips (lay member)	1/1
Chris Kenny (member and Chief Executive)	6/6
Richard Moriarty (member and Chief Executive)	1/1

Board Committees

The Audit, Risk and 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. It met formally on three occasions during the period 1 April 2014 to 31 March 2015.

The Remuneration and Nomination Committee (RNC) is responsible for advising me as Accounting Officer and the Chairman of the Board on a number of HR issues. The Committee met formally on one occasion during the period 1 April 2014 to 31 March 2015.

Both Committees are supported in their roles by external advisers.

Membership and attendance records are given below.

Audit and Risk Assurance Committee Meeting Attendance	
Terry Babbs (Chair)	3/3
Anneliese Day QC	1/1
Marina Gibbs	2/2
David Eveleigh	1/2
Sir Michael Pitt*	1/1

*Sir Michael Pitt was co-opted onto the Committee for one meeting only

Remuneration and Nomination Committee Meeting Attendance	
William Moyes	1/1
Anneliese Day QC	1/1
Sir Michael Pitt*	1/1

*Sir Michael Pitt was co-opted onto the Committee for one meeting only

The Licensing Authority Committee had been established at the end of January 2011 to fulfil the functions of the Board in preparing to act as, and in its capacity (if any), as a Licensing Authority, and to deal with any matters that arose in relation to those functions. The Board agreed to stand down this Committee in April 2014.

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.

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

In respect of annual budget approval, the LSB seeks a range of assurances from the OLC to underpin the process. For the OLC budget year 2014/15, these assurances covered:

- key risks to delivering the plan for 2014/15
- how the organisation would respond to fluctuations in case volumes
- distribution of resources in the operation of the ombudsman scheme
- changes to the plan and budget in response to stakeholder input
- funding to take on any new jurisdiction.

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

Governance relationship with the Panel

The LSB is required by the Act to establish a Consumer Panel to represent the interests of consumers. The role of the Panel is to provide independent advice to the LSB about the interests of users of legal services. It does this by investigating issues that affect consumers and advising the Board on the consumer perspective of its decisions. Details of the Panel's composition and activities can be found on their website www.legalservicesconsumerpanel.org.uk.

Executive Group and other Executive Bodies

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

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

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

Operations Group: This Group is chaired by the Chief Executive and its role is to consider cross-cutting corporate issues. It meets on an ad hoc basis as issues emerge.

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

Board Performance

The performance and effectiveness of the Board, its Committees and individual Board Members are evaluated on an annual basis. For 2014/15, the outcome and messages emerging from this process were reported to the Board at their meeting in April 2015.

New Board Members receive an induction and ongoing support to assist them in settling into their roles.

Risk and internal control framework

The LSB Board considers the plans and the overall strategic direction of the LSB, while the ARAC, on behalf of the Board, considers issues of risk in detail at each meeting providing constant challenge to the assumptions and risk classification made by the Executive. The issue of risk is addressed at Board meetings as part of the consideration of each paper that is presented. The Board reviewed the full Corporate Risk Register in November 2014 and again in March 2015.

Initial identification of major risks is undertaken by colleagues across the LSB, and these are set out in the Corporate Risk Register. The LSB has a system of continuous assessment and review. The Risk Management Strategy was reviewed during 2014/15, and the new version was approved by the Board in November 2014. The Strategy is maintained centrally and is communicated to all staff.

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

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

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

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

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

Assessment of risk management

Through its work in reviewing the LSB's Risk Management Strategy, Corporate Risk Register, and risk appetite, the Board and the ARAC have evaluated the quality of the LSB's management of risk during 2014/15 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 requiring further disclosure. My assessment has been endorsed by the Board and ARAC.

Key risks

Some of the key risks facing the LSB in achieving its priorities in 2015/16 are ongoing. Others arise from the Board reaching a point of transition in its corporate life and from the pivotal point of implementation of the changes initiated by the Act. These include:

Legal challenge

- **Risk:** Legal challenges divert LSB resources and attention away from more pressing issues with risks to early action on the issue under challenge and wider risk to our programme. The risk of a legal challenge has now crystallised in relation to the application for judicial review of the LSB's decision to approve QASA.
- **Mitigation:** The fact that the QASA challenge was unsuccessful in the High Court (an appeal to the Court of Appeal also failed, but a ruling on a subsequent appeal to the Supreme Court on a narrow European law issue is expected in June 2015) reduces the likelihood of future challenges. In addition, colleagues are provided with training on public law obligations, legal input and advice is sought at all stages of project work, and external lawyers are also asked to provide challenge on controversial or new projects.

Board and staff turnover

- **Risk:** Turnover at both Board and colleague level has the potential to cause the work programme to lose momentum and the organisation to lose "corporate memory". As at 31 March 2015, only four Board members had been in post for at least two years. During 2014/15, the Chief Executive, and a number of established colleagues left the organisation. In addition, the size of the organisation means that

significant reactive programmes of work could pose real threat to the delivery of the LSB's work programme.

- **Mitigation:** A flexible resource model is in place that allows project staff to be moved between projects and activities on a short and longer term basis. Resource allocation, delivery targets and pressures are regularly reviewed. The Executive team and the Board are kept informed where major re-planning is likely to be required. Succession planning is regularly reviewed.

Changes at regulatory bodies

- **Risk:** Resource constraints, Board and senior staff turnover together with other priorities both in bodies we oversee and the MoJ hinder the achievement of the regulatory objectives.
- **Mitigation:** We continue to liaise regularly with the bodies we oversee, including at Chair and CEO levels to ensure mutual understanding and seek to operate on a "no surprises" basis. We continue to work closely with the MoJ on statutory orders to ensure effective coordinated consultation and drafting.

The wider framework of control

As well as a risk and control framework, the LSB exercises a wider system of internal control which is based on a framework of regular management information, administrative procedures including the segregation of duties, and 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 2014/15 were as follows:

- arrangements around the processing of payroll – graded as 'significant assurance' with one low priority recommendation which was accepted

- arrangements around the approval of practising certificate fees – graded as 'significant assurance with one low priority recommendation which was part accepted

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

Information risk and data security

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

All of the LSB's electronic data and access to this data is managed securely with support provided by Co-Operative Systems. This organisation has helped ensure that the LSB implements guidance on protection and security of its IT, physical and data assets from CESG (the National Technical Authority for Information Assurance), Cabinet Office and the Centre for the Protection of the National Infrastructure (CPNI).

During the period of this report, there were no reported data security incidents at the LSB and all new colleagues receive training on information assurance and security, with particular focus on the Government's new security classification system.

Assessment of fraud risk

Together with the ARAC, I have reviewed the arrangements for LSB's assessment of the risk that the financial statements may be materially misstated due to fraud, the current processes for identifying and responding to the risks of fraud and any known instances of fraud. I consider that there is a low risk of misstatement due to fraud. The fact

that appropriate segmentation of budgetary and authorisation processes are in place and that the organisation does not handle any physical cash both significantly reduce the risk of fraud within the business. Appropriate processes for identifying and responding to the risks of fraud in day to day operations are nevertheless in place. There were no known instances of fraud to report.

Review of the effectiveness of the risk and governance framework

The 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.

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 departments: Code of Good Practice 2011

In drawing up the Governance Statement, I have assessed the LSB's governance arrangements against the requirements outlined in the *Corporate Governance in central departments: Code of Good Practice 2011* ('the Code'). Whilst the Code is specifically designed for Central Government Departments, the requirement to "comply or explain" also applies to any other bodies within the scope of *Managing Public Money*, including the LSB. My assessment, which has been endorsed by the 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 – At least one, but preferably more, of [the Audit and Risk Assurance Committee] members has recent and relevant financial experience:

Philip Lindsell, a chartered accountant, provides support to the Audit, Risk and Assurance Committee on the basis that none of the five Board Members who served on the Committee during 2014/15 have recent or relevant professional financial experience.

Conclusion

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

Richard Moriarty

Chief Executive and Accounting Officer
28 May 2015

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 2015 under the Legal Services Act 2007. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Board, Accounting Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Legal Services Board's affairs as at 31 March 2015 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 other matters

In my opinion:

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

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 part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or

- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse

Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

3 June 2015

Statement of Comprehensive Net Expenditure for the year ended 31 March 2015			
	Note	2014/15 £'000	2013/14 £'000
Programme costs			
Staff costs	2	2,482	2,618
Depreciation/Amortisation	6 and 7	40	35
Other programme costs	3	1,399	1,613
		3,921	4,266
Income			
Levy income	4	3,921	4,210
Designation and application fees	5	-	56
		3,921	4,266
Net (income)/expenditure		-	-

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

The notes on pages 50 to 60 are part of the financial statements.

Statement of Financial Position as at 31 March 2015			
	Note	31 March 15 £'000	31 March 14 £'000
Non-current assets			
Property, plant and equipment	6	134	88
Intangible assets	7	34	8
Total non-current assets		168	96
Current assets			
Trade and other receivables due within one year	10	46	37
Cash and cash equivalents	8	7,061	6,750
Total current assets		7,107	6,787
Total assets		7,275	6,883
Current liabilities			
Trade and other payables	11	908	516
Total current liabilities		908	516
Assets less liabilities		6,367	6,367
Taxpayers' equity			
Income and Expenditure Reserve		6,367	6,367
		6,367	6,367

Richard Moriarty

Accounting Officer

28 May 2015

The notes on pages 50 to 60 are part of the financial statements.

Statement of Cash Flows for the year ended 31 March 2015

	Note	2014/15 £'000	2013/14 £'000
Cash flows from operating activities			
Net operating cost		-	-
(Increase)/Decrease in trade and other receivables		(9)	176
Increase/(Decrease) in trade and other payables		392	(228)
Depreciation/Amortisation		40	35
Net cash inflow/(outflow) from operating activities		423	(17)
Cash flows from investing activities			
Purchase of property, plant and equipment		(76)	(80)
Purchase of intangible assets		(36)	-
Net cash outflow from investing activities		(112)	(80)
Net increase/(decrease) in cash and cash equivalents in the period		311	(97)
Cash and cash equivalents at the beginning of the period	8	6,750	6,847
Cash and cash equivalents at the end of the period	8	7,061	6,750

The notes of page 50 to 60 are part of the financial statements.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2015

	Note	£'000
Income and Expenditure Reserve		
Balance at 1 April 2013		6,367
Changes in Taxpayers' Equity 2013/14		
Comprehensive net expenditure for the year		-
Notional transfer to Consolidated Fund		4,266
Notional receipt from sponsoring department		(4,266)
Balance at 31 March 2014		6,367
Balance at 1 April 2014		6,367
Changes in Taxpayers' Equity 2014/15		
Comprehensive net expenditure for the year		-
Notional transfer to Consolidated Fund	1b	3,921
Notional receipt from sponsoring department	1b	(3,921)
Balance at 31 March 2015		6,367

Notes to the financial statements

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2014/15 Government Financial Reporting Manual (FRoM). The accounting policies contained in the FRoM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FRoM permits a choice of accounting policy, the accounting policy that is judged to be most appropriate to the particular circumstances of the LSB for the purpose of giving a true and fair view has been selected. The particular policies adopted by the LSB are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

(a) Accounting convention

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

(b) Income

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

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

The LSB, in conjunction with the MoJ and HMT, are seeking to identify a suitable legislative vehicle to make an amendment to s175 of the Act. This is to confirm the current practice whereby the LSB retains all amounts received through the levy and any prescribed fees rather than passing this over to the Consolidated Fund and then having the same amounts returned to it by the MoJ. The LSB believes that this was the intention of Parliament when debating the Bill setting up the LSB although some of the drafting of s175 does not capture this intent correctly. To comply with the strict requirements of s175 for the year ended 31 March 2015 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.

(c) Capitalisation policy for non-current assets

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

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

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

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

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

(d) Research

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

(e) Depreciation/amortisation

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

Tangible PPE:

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

Intangible non-current assets:

Software licences 3-7 years

In line with IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets, the LSB has reviewed the useful economic lives and residual values of its PPE and extended its depreciation/amortisation period by an additional year. The effect of this change on the Statement of Comprehensive Net Expenditure is to reduce the charge for the year from £42,000 to £40,000.

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

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

Depreciated historical cost is used as a proxy for fair value as this realistically reflects consumption of the assets as allowed by the FReM paragraph. 7.1.8. Revaluation would not cause a material difference.

(g) Taxation

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

(h) Going concern

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

(i) Pensions

The LSB has established a defined contribution group personal pension scheme in which the LSB makes fixed contributions of 10% for all colleagues and has no other liabilities. The current Chief Executive receives a fixed contribution of 19.4% (previous Chief Executive received a contribution of 22.5%). Pension contributions are charged to the Statement of Comprehensive Net Expenditure in the year in which they are incurred.

(j) Operating leases

Rentals are charged to the Statement of Comprehensive Net Expenditure in equal amounts over the lease term.

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

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

The LSB has made an assessment of the proposed changes in the FReM for 2015/16 (*Amendments to IFRS 10 Consolidated Financial Statements* was jointly issued with IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosures of Interests in Other Entities* and amendments to IFRS 7 *Offsetting*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*) and has determined that there would be no material effect on its current or prior period or a future period.

The LSB has also considered new standards, amendments and interpretations issued but not yet effective for the financial year beginning 1 April 2014 and not early adopted and has determined that there would be no material effect on its current or prior period or a future period.

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

	2014/15	2014/15	2014/15	2014/15	2014/15	2013/14
	£'000	£'000	£'000	£'000	£'000	£'000
	<i>Permanent Staff</i>	<i>LSB Board</i>	<i>OLC Board</i>	<i>Consumer Panel</i>	<i>Total</i>	<i>Total</i>
Wages and salaries	1,509	154	122	149	1,934	2,044
Social security costs	179	14	8	14	215	229
Pension	306	-	-	13	319	330
Other costs	14	-	-	-	14	15
Total	2,008	168	130	176	2,482	2,618

(i) The remuneration of the Chief Executive is included in staff remuneration.

(ii) Wages and salaries include 10% benefits allowance paid to all staff, excluding the Chief Executive, as part of LSB's *Total Reward Scheme*. Staff can purchase benefits from a menu of choices or take it as cash.

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

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

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

(b) Number of staff

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

	2014/15	2014/15	2013/14
	Permanent Staff	Total	Total
Directly employed – LSB	27	27	28
Directly employed – Panel secretariat	2	2	2
Total	29	29	30

(c) Redundancy costs

Redundancy costs are accounted for in full in the year that a irrevocable decision has been made. There have been no redundancies in 2014/15 or 2013/14.

The cost of redundancy payments in 2014/15 was £Nil (2013/14- £Nil)

3. Other expenditure		
	2014/15	2013/14
	£'000	£'000
External legal costs	238*	338
Rentals under operating leases (accommodation)	153	287
Outsourced services	129	220
Research costs	313	218
Running costs -One Kemble Street	121	194
Other programme costs	57	68
Recruitment LSB Staff	169	55
Recruitment OLC Members	55	51
Recruitment Consumer Panel	-	42
Legal library services & reference	26	27
Consumer Panel (non pay)	29	26
Professional advisers	18	15
Training	17	11
Travel, subsistence and hospitality LSB Staff	6	9
Travel, subsistence and hospitality LSB Board	19	12
Travel, subsistence and hospitality OLC Board	15	12
Audit fees for statutory audit work	19	20
Internal audit fees	15	8
Total cash items	1,399	1,613
Non-cash items		
- Depreciation	30	28
- Amortisation	10	7
Total non-cash items	40	35
Total other expenditure	1,439	1,648

* The LSB has incurred significant costs in defending a judicial review on QASA . Although the Court of Appeal found in favour of the LSB the decision was subject to a Supreme Court hearing. As at 31 March 2015 the outcome was unknown.

4. Income

	2014/15	2013/14
	£'000	£'000
Levy income from approved regulators	3,921	4,210
Total	3,921	4,210

5. Designation and application fees

	2014/15	2013/14
	£'000	£'000
<i>Change of designation fees:</i>		
The Chartered Institute of Legal Executives	-	15
Sub total	-	15
<i>Licensing authority – application fees:</i>		
Intellectual Property Regulation Board	-	22
Institute of Chartered Accountants in England and Wales	-	19
Sub total	-	41
Total	-	56

6. Property, plant and equipment

	2014/15 £'000	2014/15 £'000	2014/15 £'000
	Information technology	Furniture, fixtures and fittings	Total
Cost			
At 1 April 2014	217	137	354
Additions	76	-	76
Disposals	(208)	-	(208)
At 31 March 2015	85	137	222

Depreciation			
At 1 April 2014	202	64	266
Provision for the year	13	17	30
Released on disposals	(208)	-	(208)
At 31 March 2015	7	81	88

Net Book Value

At 31 March 2015	78	56	134
At 31 March 2014	15	73	88

	2013/14 £'000	2013/14 £'000	2013/14 £'000
	Information technology	Furniture, fixtures and fittings	Total
Cost			
At 1 April 2013	229	117	346
Additions	9	71	80
Disposals	(21)	(51)	(72)
At 31 March 2014	217	137	354

Depreciation			
At 1 April 2013	215	95	310
Provision for the year	8	20	28
Released on disposals	(21)	(51)	(72)
At 31 March 2014	202	64	266

Net Book Value

At 31 March 2014	15	73	88
At 31 March 2013	14	22	36

7. Intangible assets

Software licences	2014/15
	£'000
Cost	
At 1 April 2014	129
Additions	36
Disposals	(129)
At 31 March 2015	36
Amortisation	
At 1 April 2014	121
Provision for the year	10
Released on disposals	(129)
At 31 March 2015	2
Net Book Value	
At 31 March 2015	34
At 31 March 2014	8
Software licences	2013/14
	£'000
Cost	
At 1 April 2013	129
Additions	-
At 31 March 2014	129
Amortisation	
At 1 April 2013	114
Provision for the year	7
At 31 March 2014	121
Net Book Value	
At 31 March 2014	8
At 31 March 2013	15

8. Cash and cash equivalents

	2014/15 £'000	2013/14 £'000
Balance at 1 April	6,750	6,847
Net change in cash and cash equivalent balances	311	(97)
Balance at 31 March	7,061	6,750

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

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

9. Financial instruments

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

10. Trade receivables and other assets

Amounts falling due within one year	2014/15 £'000	2013/14 £'000
Prepayments	31	20
Deposits and advances	15	17
Total trade and other receivables	46	37

	2014/15 £'000	2013/14 £'000
Balances with other central government bodies	-	-
Balances with bodies external to government	46	37
Total trade and other receivables	46	37

11. Trade payables and other current liabilities

Amounts falling due within one year	2014/15 £'000	2013/14 £'000
Trade payables		
– External	6	3
Other taxation and social security	65	67
National Audit Office	19	20
Deferred income	377	182
Staff benefits accrual	24	24
Accruals	417	220
Total trade and other payables	908	516

	2014/15 £'000	2013/14 £'000
Balances with other central government bodies	79	162
Balances with bodies external to government	829	354
Total trade and other payables	908	516

12. Capital commitments

There are no capital commitments.

13. Commitments under leases

Operating leases	2014/15 £'000	2013/14 £'000
Buildings		
Not later than one year	154	154
Later than one year and not later than five years	419	573

The LSB signed a Crown Estate Occupancy Agreement (CEOA) with the Office of Rail Regulation in September 2013 and the LSB 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

As disclosed in the Strategic Report the LSB has been subject to an ongoing judicial review since 6 September 2013. The LSB has been provisionally awarded a share of limited costs from the claimants but the case has been heard on appeal by the Supreme Court in March 2015. The LSB's view is that if the Court again finds in its favour the claimants may appeal to the Court of Justice of the European Union which may take several years to be heard. Consequently the LSB is unable to assess the value of this contingent asset.

If the claimants are successful costs may be awarded against the LSB. There is no basis to determine what this may amount to as this relies fully on the determination of the Supreme Court.

15. Related party transactions

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

In addition 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 that the OLC established. Under the Act the LSB is responsible for appointing and paying the salaries and expenses of the OLC Board members, which for the whole reporting period amounted to £145k (£163k 2013/14). The payments for fees for the OLC Board members for 2014/15 were £122k (£140k 2013/14).

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

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

16. Events after the reporting period

In accordance with IAS 10 *Events After the Reporting Period* events after the reporting period are considered up to the date on which the accounts are authorised for issue. The Accounting Officer authorised these financial statements for issue on 28 May 2015.

There are no events after the reporting period to report.



LEGAL SERVICES
BOARD

Legal Services Board
One Kemble Street
London WC2B 4AN

T 020 7271 0050

F 020 7271 0051

www.legalservicesboard.org.uk